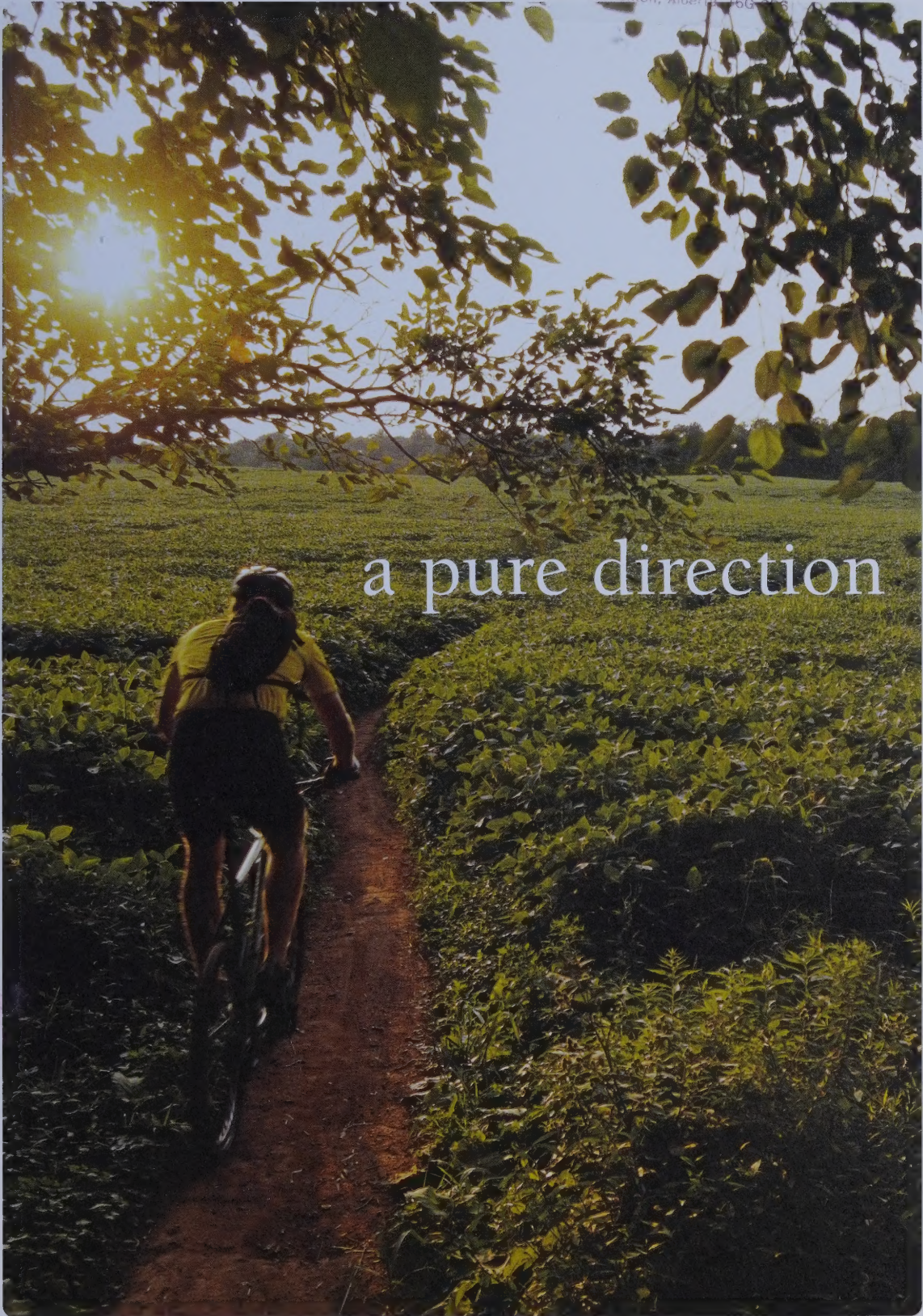




a pure direction

Financial Highlights

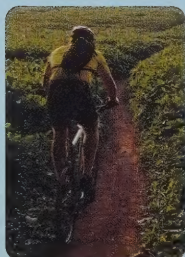
	2002	2001
Revenues	\$ 120,898,000	\$ 89,822,000
Net earnings	\$ 3,766,000	\$ 19,000
Earnings per share	\$ 0.09	\$ 0.00
Total assets	\$ 115,287,000	\$ 80,061,000
Book equity per share	\$ 1.18	\$ 1.06

Healthy Performance



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Our Mission

To rapidly grow sales, profits and shareholder value through an effective balance of internal growth and acquisition, with a focus on integrated business models in the natural and organic food markets.

A path towards a pure vision



Jeremy N. Kendall
Chairman and Chief Executive Officer

During 2002 the Company realized record earnings and reported its 21st consecutive quarter of record revenue growth.

2002 was the year the Company began to realize the benefits from its vertically integrated food operations which have been assembled over the past four years.

The Company achieved record earnings for the year, and in the fourth quarter, reported its 21st consecutive quarter of record sales growth.

From an initial investment in 1999, natural and organic food products will represent over 85% of the Company's revenue in 2003 and a clear focus of the Company's future.

Based on projected 2003 sales of \$175 million, Stake has achieved a 60% compounded annual growth rate (CAGR) over the past six years, with approximately two-thirds of its 2002 food sales in soy based products, a market which has itself grown at a CAGR of 21% per year from 1992 to 2001. At the same time, the broader category of natural and organic foods has grown at approximately 20% per year. These are extraordinary growth rates in the food industry and are a reflection of numerous trends that have converged to create this market growth, including consumers' increasing interest in natural and organic foods grown without artificial fertilizers, pesticides and herbicides, their concern over the addition of growth hormones to food, the long-term impact of genetic modification and general recognition that healthy living is directly connected to healthy eating choices. For soy products,



From an Initial Investment an Integrated Company Emerges

From field to table or from the sale of organic and non-GMO seed, through to the processing and packaging of finished soymilk products, Stake Technology maintains complete control over quality and organic certification for its customers.

improved methods of detecting lactose intolerance and the growing body of knowledge as to the health benefits of soy, in particular, reduced heart disease, assistance in controlling osteoporosis and the symptoms of menopause and multiple other cancer inhibitor claims, are factors adding to the growth of the soy market.

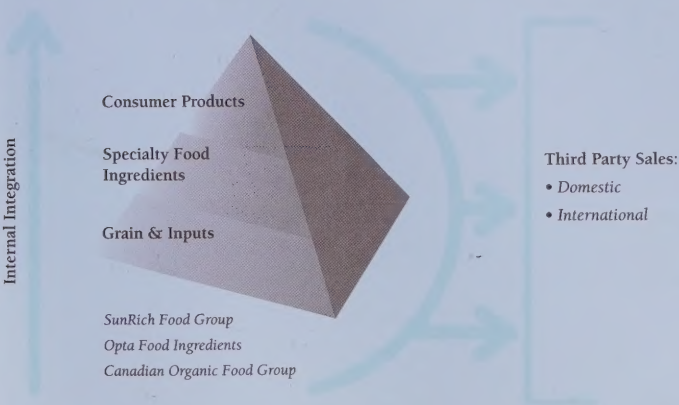
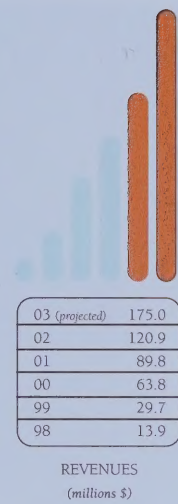
The dramatic rise in obesity, particularly among children, and the increase in associated diseases such as diabetes are leading many of the major fast food companies to expand their menus to include numerous healthy choices. Similarly, as the baby boomer generation reaches the age of greater health risk there is a national effort to educate and improve awareness of the problems and costs associated with obesity and the benefits of a healthy diet.

These trends support the Company's vision to continue to grow rapidly, as the natural and organic food markets become mainstream and the benefits of soy based products become more widely recognized.

Stake has positioned itself as an integrated natural and organic foods Company with a base in grains and other agricultural products and processing facilities focused on transforming these inputs into value added food ingredients and ultimately consumer branded products. The graphic below illustrates the Company's vertically integrated natural and organic foods model.

The importance of this integrated model lies in the maintenance of product quality and strict control over organic and non-genetically modified certification from the farm through to product shipment or "field to table".

Through the Company's internal expansion and acquisition program, Stake intends to concentrate on further development of the existing vertically integrated business model and the addition of further targets that fit this strategy. In hand with this, the Company is devoting significant focus and resources on the effective integration and



The Company intends to focus its continued growth at all levels of its vertically integrated business model via a combination of internal investment and acquisition.



02	3,766
01	19
00	2,118
99	957
98	516

NET EARNINGS
FOR THE YEAR
(thousands \$)



02	9,492
01	5,291
00	3,875
99	1,458
98	1,035

EBITDA
(thousands \$)

alignment of existing businesses in support of this integrated model. The existing organization will continually evolve to support this integrated focus, forming a solid platform for future growth. As the organization evolves personnel, manufacturing and product resources will be utilized in a manner focused on maximizing business performance, all in support of driving enhanced shareholder value.

Sales for 2002 were \$120.9 million, a healthy 35% increase over the previous years' sales of \$89.8 million. Approximately 95% of the growth in the Company's food businesses came from internal sources, in particular from packaged soy milk, dietary fiber and identity preserved organic grains. Stake can be clearly categorized as a high growth-Company operating in high growth markets.

Net earnings in 2002 were \$3,766,000 or \$0.09 per share compared to \$19,000 or \$0.00 per share in 2001. These earnings were due in most part to improved financial performance at Nordic Aseptic, the Company's aseptic packaging operations, as well as improved volumes and margins in dietary fiber and certain grain and agronomy products. In addition, cost reduction programs implemented throughout the Company and certain margin improvements in the Environmental Industrial Group, combined with the 2001 Virginia Materials acquisition contributed to the improvement in earnings. The Company also realized reduced borrowing costs as a result of new banking arrangements implemented during the year and had a reduced effective tax rate due to the recognition of previously unrecorded tax loss carry forwards and tax planning strategies, partially offset by the write-off of the Company's 32% investment in Easton Minerals Limited. It should be noted that these record earnings were achieved in spite of approximately \$680,000 expenses related to the start-up of the Nordic Aseptic plant, which were incurred in the first four months of 2002.

EBITDA (earnings before interest expense, interest and other income, taxes, depreciation and amortization) for the year increased 79.4% to \$9,492,000 from \$5,291,000 in 2001. This key measure reflects the underlying strength in cash flows generated by operations.

Total assets increased by \$35,226,000 or 44.0% to \$115,287,000 at December 31, 2002, due primarily to growth within existing operations and the acquisitions completed during the year, all in accordance with the Company's growth strategy. Long-term debt increased to \$36,749,000, mainly as a result of financing related to acquisitions in the fourth quarter. However, the long-term debt to equity ratio was reduced from 0.74:1 at December 31, 2002 to 0.55:1 in March 2003 as a result of restructuring and repayment of certain of these financing facilities.



Fiber Addition and Breakage Reduction

Opta's Canadian Harvest® Oat Fiber adds nutritional content to foods as well as increases yield, enhances texture and adds strength to baked goods and dairy products. The result is reduced breakage in fragile foods such as pretzels, chips, crackers, ice cream cones and taco shells without adding toughness or altering flavor.



02	0.09
01	0.00
00	0.09
99	0.06
98	0.04

NET EARNINGS
PER SHARE
(\$ per share)



02	115,287
01	80,061
00	58,304
99	22,246
98	10,105

TOTAL ASSETS
(millions \$)

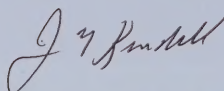
In March 2002, the Company consolidated most of its previous banking relationships with a single Canadian lender and its wholly owned U.S. subsidiary. Over a number of years Stake had acquired a number of companies with numerous separate banking and private lending relationships. The new agreement consolidated these arrangements and resulted in significant administration and interest cost savings in 2002, and an improvement in cash flow on an annualized basis. As previously noted, in November 2002 Stake entered into a tender facility agreement for a maximum availability of \$17.0 million, to be used solely for the purchase of the outstanding common shares of Opta Food Ingredients, Inc. (Opta), pursuant to the cash tender offer for Opta. This facility was fully repaid in March 2003 with cash and the incremental proceeds from an amended syndicated banking facility which was negotiated to support expanded operations.

In addition, the Company issued a \$5.0 million convertible debenture to Claridge Inc., the Company's major shareholder. These funds were used to assist in the purchase of Opta, and the facility becomes convertible on December 1, 2003 if the Company has not repaid in advance.

Stake now employs over 560 persons located throughout North America in 17 manufacturing facilities, 5 sales, development and administration offices and multiple warehouse operations. The Company's record results are a reflection of their dedication, innovation and enthusiasm and are to their credit. Appreciation is also extended to the Company's many customers and suppliers who all contribute substantially to the success of the Company. The Company is privileged to have an experienced and committed Board of Directors whose counsel and guidance is invaluable. Finally, thanks to the Company's shareholders whose encouragement and support make hard work rewarding. A special note of thanks goes to the Claridge Group, the Company's largest shareholder, whose commitment and support has manifested itself at every level of the Company.

The Company's record results are a reflection of the dedication, innovation and enthusiasm of the 560 persons who together make up the Stake team.

Sincerely,



Jeremy N. Kendall
Chairman and Chief Executive Officer



Dairy and Dairy Alternative Products

The Food Group offers a wide variety of Ingredient Systems that enhance the taste, texture and appearance of full, low and non-fat dairy and soy based alternative products – giving sour cream, yogurt, cottage cheese, margarine-type spreads and soy-based dairy alternatives a creamier, richer texture.

Pure and simple strategy

AN ACTIVE YEAR IN ACQUISITIONS

In the pursuit of a successful vertically integrated business model, the Company has never lost sight of its fundamental values and commitment to the natural and organic foods market.

2002 was marked by the acquisitions of four businesses and the start-up of a fifth, all in support of the Company's vertically integrated natural and organic foods model.

During 2002, the Company completed four acquisitions and launched a fifth business, all in support of the Company's vertically integrated food model.

The largest acquisition in 2002 was the a successful tender offer for 100% of the outstanding shares of Opta Food Ingredients, Inc., which was completed on December 18, 2002. Opta is a leading innovator, manufacturer and marketer of proprietary natural and functional food ingredients that improve the nutritional content, healthfulness, texture and taste of its customer's food products. Opta is the world's largest supplier of oat fiber to the food industry. These products are used in food for both their nutritional content as well as for certain functional features, such as added strength. Opta also produces wheat germ and oat bran for cereals, breads and pastry items and manufacturers specialty starches and starch blends and for the yogurt, cheese and dessert markets.

Opta brings a high level of food science to the Company with its extensive applications know how, 28 patents and 30 distinct products. The company markets its products to over 350 companies, including four of the major fast food companies. Recently, Opta gained approval in the European Common Market for its patented natural "EverFresh" product, which replaces sulfites currently employed to prevent

discoloration of lobster and shrimp. Opta had record profits for 2002 on sales of approximately \$28.5 million. The acquisition of Opta was a key building block in the continued development of the Company's vertically integrated food model. With a strong compliment of proprietary natural and functional food products, solid management, a high level of food science and well maintained manufacturing facilities the fit was a natural. The manufacturing and processing facilities acquired total approximately 135,000 square feet of manufacturing and warehousing space and operate around the clock on a five or seven day per week basis. All the plants have Excellent or Superior AIB ratings and have been immaculately maintained.

In November and December of 2002, Stake acquired 100% of the outstanding shares of both Wild West Organic Harvest Co-operative Association and Simply Organic Co. Ltd. These two profitable companies distribute over 2,400 organic products in Western Canada and Ontario, including produce, grocery, dairy and dairy alternatives such as soy products. Both companies market Stake's "mū" organic milk and "Organic Kitchen" brand chicken and turkey, as well as products from many customers who use Stake's numerous food ingredients.

Both companies have been growing very rapidly and will now form the base of a proposed national organic distribution company in Canada with increased purchasing power, integrated warehousing and consolidated information systems. Stake intends to add to this distribution base in the future as part of its vertically integrated strategy.

Both companies have substantially expanded their warehousing facilities since acquisition and broadened their product lines and customer base and are working well together in achieving significant synergies. Wild West has recently signed an exclusive sales agency for "La Vine" products, the first scale production of green house organic produce, which is marketed across Canada and throughout Western United States.

In October 2002, the U.S. adopted national organic standards which prescribe minimum levels of organic compliance. In Canada, Wild West and Simply Organic are working with the organic industry to accelerate the establishment of an organic program, which will be compatible with U.S. standards and facilitate cross border and international sales.



02	49,527
01	43,500
00	20,892
99	11,362
98	6,324

SHAREHOLDERS' EQUITY (millions \$)



02	1.18
01	1.06
00	0.74
99	0.55
98	0.43

SHAREHOLDERS EQUITY PER SHARE (\$ per share)



Canadian Natural and Organic Foods Distribution

With the addition of Stake's recent acquisitions of Wild West Organic Harvest and Simply Organic, the Company is building a Canadian natural and organic foods distribution network that will support the organization's current branded products plus new integrated product developments.

In July 2002, the Company acquired certain assets of Cloud Mountain Inc. and Organic Kitchen Inc. These companies source organic feed partially through the Company's vertically integrated grain operations, blend the feeds through third-party processors and deliver to chicken growers, with all facilities organically certified. The chickens are grown over an average eight week cycle and processed and packaged for sale under the Loblaw's "Presidents Choice" label and the Company's "Organic Kitchen" label for various retail outlets. The company is assessing market opportunities in the U.S. and during 2003 plans to introduce a lineup of organic pork products in Canada.

In April 2002, the company launched its own line of organic milk and dairy products under the brand name "mū". Distribution is now in place across Canada through the Company's distribution arm, as well as to mass market through Natrel Inc., a major Canadian dairy company. This Division, operating under the name Sunrich Valley, assists farmers in certification procedures, processes and packages the products at certified facilities and then markets the resulting products. The future is expected to see the addition of cheese products, dried milk and blended coatings and flavorings in hand with the Company's integrated specialty food ingredient operations.

In April 2003, the Company announced that it reached an agreement to acquire 100% of the outstanding shares of Kettle Valley Dried Fruit Company Ltd. (Kettle Valley) and its related companies.

Kettle Valley produces natural and organic fruit bars and fruit leathers with an apple base and markets these products under the Kettle Valley and Frunola brands. The company operates two production facilities in Summerland, British Columbia, the heart of the B.C. apple growing district, and is currently constructing a third plant in the State of Washington, the center of the apple growing district of Western U.S. In addition, Kettle Valley produces a number of private label products for customers in the U.S., Canada and the U.K. The Company's products are sold through agents and distributors, including Wild West and Simply Organic, to the health food and mass markets as well as to various school districts who have mandates to improve the dietary content of student lunches.

Kettle Valley expands the Company's consumer product offerings to include natural and organic snacks. Stake intends to broaden Kettle Valley's bar product line into other health oriented offerings. Kettle Valley currently utilizes oat fiber produced by Opta and expects to add other vertically integrated ingredients from the Company's food operations as it expands its products offerings.

The 2002 acquisitions were acquired primarily for cash and notes payable. The proposed acquisition of Kettle Valley will include approximately 200,000 common shares of the Company, in addition to cash and notes payable.

The Canadian Organic Food Group was formed in 2002 with the objective of becoming the dominant player in the Canadian natural and organic foods sector, vertically integrated from supply through distribution.



Kettle Valley expands the Company's consumer product offerings while utilizing vertically integrated ingredients and distribution channels.

2002 was a break-through year for the Company's Nordic Aseptic packaging operations as the facility achieved record production volumes.



STAKE'S FOOD
SALES ARE DRIVING
RAPID GROWTH

MAJOR DEVELOPMENT IN THE SUNRICH FOOD GROUP

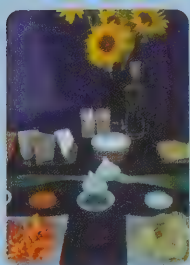
Certainly the most significant development of 2002 within the Sunrich Food Group was the successful start-up of the Nordic Aseptic soymilk packaging plant located in Alexandria, Minnesota. This plant had been acquired prior to the completion of its construction and required fifteen months to modify and install required equipment, hire new management, train operating staff and launch a marketing program.

Initial production began in 2001 and reached profitability and economic production levels in the second quarter of 2002, resulting in its first full year of profitable operations. Production volumes continue to grow and are nearing capacity of approximately 100,000 to 120,000 cases per week. The plant is in the process of expanding capacity to approximately 150,000 cases per week.

Significant growth is forecast in the soymilk market as a result of a number of factors, including the desire of many major food retailers to have their own house brand, the broadening of the category through new soy based products, the expansion of the food service market such as major coffee chains and finally, the large marketing expenditures by key players which are expected to expand the entire soymilk category.

To deal with this growth the Company is making further investments in expanding its organic sweetener production for rice, oats and corn, improving yields in the production of soy base and adding processing and packaging capacity.

At the Natural Products Expo West Show in March, 2003, Sunrich announced that it has developed a line of organic savory and sweet coatings and flavorings. This line includes dairy powders (cheddar cheese, Italian-type, and sour cream), snack coatings (nacho cheese, sour cream and onion, ranch, BBQ, and salt and vinegar), savory flavors (organic spray dried soy sauce, tamari and miso and vinegar) and sweet flavors (organic spray dried honey and molasses). These products are spray dried in the company's processing facilities and are used in cereals, bars, snack foods and sauces. Response to these products at the show was very strong and this product line fits well with the integrated business model that is core to the Company's future growth. Many of these products will include food ingredients from the Company's vertically integrated operations.



Organic Snack Coatings and Flavorings

The Company's snack coatings and flavorings are produced using organic and non-genetically modified (non-GMO)/identity preserved (IP) raw materials. Processing techniques are certified organic and kosher. The new snack coatings and flavorings are spray-dried to provide superior coating and dispersibility and are easy to handle whether they are used in cereals, bars, snack foods (chips, crackers, etc.) or sauces.

Opta Food Ingredients has gained approval in the European Common Market for its patented natural “EverFresh” product, which replaces sulfites currently employed to prevent discoloration of lobster and shrimp. EverFresh permits delivery of a high quality product with improved stability against blackspot development.

MAJOR DEVELOPMENTS AT OPTA FOOD INGREDIENTS

2002 for Opta was a break-through year for Opta with record sales and earnings, culminating in the December acquisition by Stake.

Opta's oat fiber sales grew in both the domestic market and international markets, particularly in Australia and Mexico. Expanded applications include fiber enriched yogurts, breads and pretzels. Health concerns are motivating many of the fast food and snack companies to add fiber to their products which promotes intestinal health. In order to accommodate this growth the Company invested \$3.8 million in an additional oat fiber line at its Cambridge, Minnesota plant, which adds five million annual pounds of capacity.

The Company's starch based products found expanded opportunities in soy based applications such as soy yogurts, cream cheese and desserts, as well as salad dressings. A major fast food company also introduced these products as a fruit enhancer to control bleeding of fruit in dairy desserts.

Since the date of acquisition a team of senior managers have been focused on integrating its food operations in order to achieve substantial synergies. A new organizational structure has been put in place which builds on the strengths of the individual companies and their contribution to Stake's vertically integrated food model.

ENVIRONMENTAL INDUSTRIAL GROUP

The Environmental Industrial Group had record sales and earnings for the year 2002. Strong demand was experienced for the Group's patented and/or sole sourced abrasives, particularly in the ship cleaning and repair and bridge cleaning markets.

At the end of 2002 a number of new abrasives were developed based on recycled cullet and nickel slag and were introduced in early 2003 with good success.

The Groups abrasive plants in the U.S. in New Orleans, Louisiana and Norfolk, Virginia had profitable years with U.S. Navy work expanding due to the activity in the Middle East. The Group remains committed to constructing a third U.S. abrasives plant in the Baltimore, Maryland region, but have been delayed in implementation due to local regulatory issues.

The Group also achieved record sales in its garnet product lines in the abrasive, waterjet cutting and water filtration markets. Additionally, sales of specialty sands packaged and retailed for home usage were strong along with premixes for the foundry industry.

Operations at the Group's main plant in Waterdown, Ontario, were streamlined with substantial cost reductions implemented throughout the organization.

Management of this Group remain focused on driving new product innovation while at the same time realizing maximum cost efficiencies.

The Environmental Industrial Group operates on a stand-alone basis and achieved record sales and earnings in 2002.

STEAM EXPLOSION TECHNOLOGY GROUP

The Company's Steam Explosion Group signed its first contract in China to supply a Steam Explosion system for the pulping of waste straw for corrugated and linerboard pulp. Before the project could be initiated the principal became ill and as a result the project has been delayed pending his recovery.

Considerable effort was spent during the year in laying the foundation for additional projects in China, some of which may be realized in 2003. The Group remains focused in the Chinese market and has added a number of potential North American food ingredient applications to the mix.

The Company will continue to pursue Steam Explosion pulping opportunities, while at the same time expanding its focus on potential food ingredient applications.

EVOLVING TO A NEW CORPORATE IDENTITY

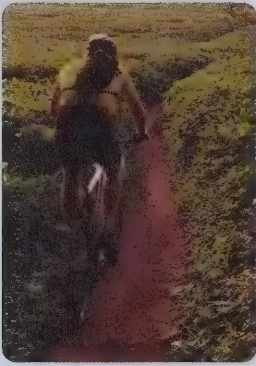
For some time management has been considering the possibility of changing the name of the Company to better reflect the business focus of the Company in natural and organic foods. Inclusion of the word "Technology" no longer seems appropriate and the name "Stake" is really synonymous with the Company's original Steam Explosion focus.

Accordingly, we will be asking shareholders at the Company's Annual Meeting on June 18, 2003 to consider a name change to SunOpta Inc. This is a name which reflects the Company's roots in the food business with both SunRich and Opta and carries with it the message of a healthy products company.

As a result of the Company's continued evolution to natural and organic foods a pure direction has been established, and thus a change in identity is only natural.



Stake Technology Ltd.



a pure direction

From the Company's roots in steam explosion technology and the industrial minerals and environmental recycling business, a unique vertically integrated natural and organic foods company has emerged.

Guided by the ethical principles of environmental responsibility and the health and well-being of the communities it serves, the core of the Company's operations are now focused on the natural and organic foods markets.

The Company's integrated natural and organic foods model is based upon a foundation in grains and related agronomic inputs, a well established and expanding business in the transformation of these raw materials into value-added specialty food ingredients, and a small but growing branded and distribution business marketing numerous products, some of which are manufactured from integrated food ingredients. From its roots in agriculture through to the processing and marketing of healthy food products, the Company maintains control of quality and certification from "field to table".

The Company has evolved to become a key participant in the rapidly growing natural and organic foods business and intends to focus its efforts and investments in products and processes within this sector. The Company is rapidly becoming recognized as a growth company in growth markets.

As a result of this evolution to natural and organic foods, "a pure direction" has been established for our Company, thus the change in corporate identity is only natural.

SunOpta Inc.





Jeremy N. Kendall (*)
Chairman and Chief Executive Officer
Stake Technology Ltd.



Steven R. Bromley
Executive Vice President and
Chief Financial Officer
Stake Technology Ltd.



Allan G. Routh (*)
President, Grains and Soy Products Group
Former President and Chief Executive
Officer of the SunRich Food Group, Inc.



Arthur J. McEvily
President, Specialty Food Ingredients Group
Former President and Chief Executive
Officer of Opta Food Ingredients, Inc.



John H. Dietrich
Vice President Finance,
Corporate Controller and Treasurer
Stake Technology Ltd.



Sergio A. Varela
Vice President Finance, Operations
Stake Technology Ltd.



David J. Kruse
President, Environmental Industrial Group



Larry (Andy) Anderson (*)
Independent Consultant,
Food Operations



Cyril A. Ing (*)
Corporate Secretary and
Independent Consultant
Stake Technology Ltd.
Former President of the Conat Group



Stephen R. Bronfman (*)
Chairman of Claridge Inc.



Robert Fetherstonhaugh (*)
President of Claridge Inc.



Joe Riz (*)
Managing Director of Tricapital
Management Ltd.



James K. Rifenbergh (*)
Independent Consultant
Former President and Chairman of Brown
Printing Company of Waseca, Minnesota.



Katrina Houde (*)
Independent Consultant
Former President of Cuddy Food Products.



Camillo Lisio (*)
Independent Consultant
Former President and Chief Operating
Officer of Saputo, Inc.



Dennis W. Anderson (*)
Independent Consultant
Former Executive Vice President
of the SunRich Food Group, Inc.

(*) Directors (1) Members of Audit Committee (2) Members of Corporate Governance and Compensation Committee

Management's Responsibility for Reporting

The accompanying consolidated financial statements of Stake Technology Ltd. and all the information in the annual report are the responsibility of management, and have been approved by the Board of Directors.

The financial statements have been prepared by management, in accordance with Canadian generally accepted accounting principles. When alternate accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Reconciliation of these policies to U.S. accounting policies are described in note 18 to the consolidated financial statements. Management has prepared the financial information presented in this annual report and has ensured that it is consistent with that presented in the financial statements.

Stake Technology Ltd. maintains systems of internal accounting and administrative controls consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and all members are independent directors. The Committee meets periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, related disclosure controls, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the annual report, the financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the shareholders. The Committee also considers the engagement or re-appointment of the external auditors for review by the Board and approval by the shareholders.

The financial statements have been audited by PricewaterhouseCoopers LLP, the external auditors, in accordance with generally accepted auditing standards in Canada and the United States of America on behalf of the shareholders. PricewaterhouseCoopers LLP has full and free access to the Audit Committee.



Steven R. Bromley
Executive Vice President and Chief Financial Officer

Auditors' Report

To the Shareholders of Stake Technology Ltd.

We have audited the consolidated balance sheets of **Stake Technology Ltd.** as at December 31, 2002 and 2001 and the consolidated statements of earnings, retained earnings and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Canada and the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

February 28, 2003

(except as to note 8, which is of March 5, 2003)

Consolidated Balance Sheets

As at December 31, 2002 and 2001	2002	2001
(Expressed in thousands of U.S. dollars)	\$	\$
ASSETS (note 8)		
Current assets		
Cash and cash equivalents	7,012	3,364
Restricted cash	—	1,147
Short-term investments	2,038	6,307
Accounts receivable – trade	18,144	8,377
Current portion of note receivable (note 3)	1,034	1,256
Inventories (note 4)	22,989	13,821
Prepaid expenses and other current assets	958	1,258
Future income taxes (note 11)	115	663
	52,290	36,193
Note receivable (note 3)	—	1,047
Property, plant and equipment, net (note 5)	37,033	30,883
Goodwill and intangibles, net (note 6)	14,917	11,038
Future income taxes (note 11)	9,892	—
Other assets (note 7)	1,155	900
	115,287	80,061
LIABILITIES		
Current liabilities		
Bank indebtedness (note 8)	3,963	1,206
Accounts payable and accrued liabilities	19,664	12,831
Customer deposits	421	1,389
Current portion of long-term debt (note 8)	11,650	2,634
Current portion of long-term payables (note 9)	3,458	1,067
	39,156	19,127
Long-term debt (note 8)	25,099	14,014
Long-term payables (note 9)	1,505	1,598
Future income taxes (note 11)	—	1,822
	65,760	36,561
SHAREHOLDERS' EQUITY		
Capital stock (note 10)	38,020	35,875
Contributed surplus	2,914	2,910
Retained earnings	7,470	3,704
Currency translation adjustment	1,123	1,011
	49,527	43,500
	115,287	80,061

Commitments and contingencies (note 14)

(See accompanying notes to consolidated financial statements)

Signed on behalf of the Board



Jeremy N. Kendall
Director



Joseph Riz
Director

Consolidated Statements of Earnings

<i>For the years ended December 31, 2002, 2001 and 2000</i>	2002	2001	2000
<i>(Expressed in thousands of U.S. dollars, except per share amounts)</i>	\$	\$	\$
Revenues	120,898	89,822	63,821
Cost of goods sold	101,431	77,450	54,650
Gross profit	19,467	12,372	9,171
Selling, general and administrative expenses	14,281	11,142	7,091
Earnings before the following	5,186	1,230	2,080
Interest expense	(1,413)	(1,745)	(959)
Interest and other income	218	326	407
Foreign exchange gain	176	355	45
	(1,019)	(1,064)	(507)
Earnings before income taxes	4,167	166	1,573
Provision for (recovery of) income taxes (note 11)	401	147	(545)
Net earnings for the year	3,766	19	2,118
Net earnings per share for the year (note 15)			
Basic	0.09	0.00	0.09
Diluted	0.09	0.00	0.09

(See accompanying notes to consolidated financial statements)

Consolidated Statements of Retained Earnings

<i>For the years ended December 31, 2002, 2001 and 2000</i>	2002	2001	2000
<i>(Expressed in thousands of U.S. dollars)</i>	\$	\$	\$
Retained earnings – Beginning of the year	3,704	3,685	1,567
Net earnings for the year	3,766	19	2,118
Retained earnings – End of the year	7,470	3,704	3,685

(See accompanying notes to consolidated financial statements)

Consolidated Statements of Cash Flows

For the years ended December 31, 2002, 2001 and 2000	2002	2001	2000
(Expressed in thousands of U.S. dollars)	\$	\$	\$
Cash provided by (used in)			
Operating activities			
Net earnings for the year	3,766	19	2,118
Items not affecting cash			
Amortization	4,130	3,706	1,750
Future income taxes	(1,000)	(142)	(876)
Write-down of investment	366	—	—
Other	(273)	(189)	(218)
	6,989	3,394	2,776
Changes in non-cash working capital, net of businesses acquired (note 12)	(6,917)	(3,074)	(2,741)
	72	320	35
Investing activities			
Decrease (increase) in short-term investments	6,307	(6,307)	—
Acquisition of companies, net of cash acquired	(21,919)	(2,172)	(3,365)
Acquisition of property, plant and equipment	(4,464)	(3,907)	(3,361)
Proceeds from notes receivable	1,425	1,393	341
Other	105	(49)	(409)
	(18,546)	(11,042)	(6,794)
Financing activities			
Increase (decrease) in line of credit facilities	2,757	(1,020)	1,243
Borrowings under long-term debt and tender facility	34,883	1,042	11,027
Repayment of long-term debt	(16,940)	(6,188)	(7,135)
Repayment of deferred purchase consideration	(982)	—	—
Proceeds from the issuance of common shares, net of issuance costs	2,091	20,813	606
Financing costs	(796)	—	—
Decrease (increase) in restricted cash	1,147	(1,147)	251
Purchase and redemption of Preference Shares of subsidiary Companies	(129)	(117)	(173)
	22,031	13,383	5,820
Foreign exchange gain on cash held in foreign currency	91	67	28
Increase (decrease) in cash and cash equivalents during the year	3,648	2,728	(911)
Cash and cash equivalents – Beginning of year	3,364	636	1,547
Cash and cash equivalents – End of year	7,012	3,364	636

See note 12 for supplemental cash flow information

(See accompanying notes to consolidated financial statements)

Notes to Consolidated Financial Statements

(Expressed in thousands of U.S. dollars)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Stake Technology Ltd. (the Company) was incorporated under the laws of Canada on November 13, 1973 and operates in three principal businesses. The Food Group processes, packages and distributes a wide range of natural and organic food products via its vertically integrated operations with a focus on soy and other natural and organic food products. The Environmental Industrial Group processes, distributes and recycles industrial minerals. The Steam Explosion Technology Group markets proprietary steam explosion technology systems for the pulp and food processing industries. The Company's assets, operations and employees at December 31, 2002 are located in the United States and Canada.

The Company's significant accounting policies are outlined below. These consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada. Differences arising from the application of accounting principles generally accepted in the United States are described in note 18.

Basis of presentation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All significant intercompany accounts and transactions have been eliminated on consolidation.

Cash and cash equivalents

Cash and cash equivalents consist of unrestricted cash and short-term deposits with a maturity at acquisition of less than 90 days.

Short-term investments

Short-term investments consist of portfolio investments in other companies and deposits with a maturity at acquisition of greater than 90 days, and are valued at market.

Inventories

Raw materials and finished goods inventories are valued at the lower of cost and estimated net realizable value. Cost is determined on a first-in, first-out basis.

Inventories of grain are valued at market. Changes in market value are included in cost of goods sold. The Food Group generally follows a policy of hedging its grain transactions to protect gains and minimize losses due to market fluctuations. Futures and purchase and sale contracts are adjusted to market price and gains and losses from such transactions are included in cost of goods sold. The Company has a risk of loss from hedge activity if the grower does not deliver the grain as scheduled.

Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated amortization.

Amortization is provided on property, plant and equipment on the diminishing balance basis or, in the case of certain U.S.-based subsidiaries, straight-line basis at rates based on the estimated useful lives of the assets as follows: 10% to 33% for office furniture and equipment, machinery and equipment and vehicles and 4 to 8% for buildings. Amortization is calculated from the time the asset is put into use.

Goodwill and intangibles

The Company adopted the new CICA Handbook Section 3062 "Goodwill and Intangible Assets" on January 1, 2002. This new standard eliminates the need for amortization of goodwill and indefinite life intangible assets. Goodwill represents the excess of the purchase price over the assigned value of net assets acquired. Under the transitional provisions of the standard, a goodwill impairment test was carried out and no impairment was identified on January 1, 2002.

In accordance with the new standard, the Company has assessed the carrying value of goodwill for possible impairment, and has determined that no such impairment exists as at December 31, 2002. Certain of the Company's trademarks are intangible assets with an indefinite life. The Company has further determined that there is no impairment in the value of these indefinite life trademarks. As required by the standard, the new rules related to goodwill and other intangible assets have been applied prospectively. On a pro-forma basis, the impact of adopting the new standard on prior year's earnings is:

	2001	2000
	\$	\$
Net earnings for the year	19	2,118
Add back: goodwill and trademark amortization, net of tax	492	329
Adjusted net earnings for the year	511	2,447
Adjusted net earnings per common share	0.02	0.11

Other assets

i) Pre-operating costs

Net costs incurred in the pre-operating stage of a start-up business are deferred until the business reaches commercial operation or the passage of a certain period of time as predetermined by management.

During 2001, the Company initiated the start-up of an organic dairy business based in Canada. Certain pre-operating costs totaling \$308 (2001 – \$32) have been deferred. Amortization of these costs on a straight-line basis commenced in July 2002 and will result in these costs being fully amortized by December 31, 2003.

During 2000, the Company acquired Nordic Aseptic, Inc., which was considered a start-up business from the date of acquisition to December 31, 2000. Certain operating costs, net of income earned during the pre-operating period totaling \$482 were deferred. Amortization of these costs commenced January 1, 2001 and are being amortized on a straight-line basis over three years.

ii) *Patents and licenses*

Costs of acquiring or registering patents and licenses are capitalized and amortized on a straight-line basis over their expected lives of 8 to 20 years. Costs of renewing patents are expensed as incurred.

iii) *Deferred financing costs*

Costs incurred in connection with obtaining long-term financing are deferred and amortized over the term of the related financing agreement.

Revenue recognition

i) *Food Group*

Grain revenues are recorded at the time of shipment. Revenues from custom processing services are recorded upon provision of services and upon completion of quality testing. All other Food Group revenues are recognized upon the sale and shipment of a product or the providing of a service to a customer.

ii) *Environmental Industrial Group*

Revenues from the sale of industrial minerals are recognized upon the sale and shipment of the related minerals. Revenues from recycling activities are recognized upon the sale and shipment or the disposal of non-hazardous material received.

iii) *Steam Explosion Technology Group*

The percentage of completion method is used to account for significant contracts in progress when related costs can be reasonably estimated. The Company uses costs incurred to date as a percentage of total expected costs to measure the extent of progress towards completion.

Revenues from consulting and contract research are recognized when the service is completed.

License fees related to the right to sell the Company's technologies are recorded as revenues over the term of the license, when collectibility is reasonably assured.

Change in reporting currency

The Company historically prepared and filed its consolidated financial statements in Canadian dollars. On January 1, 2002, the Company adopted the United States (U.S.) dollar as its reporting currency for presentation of its consolidated financial statements. With the recent acquisitions of a number of companies in the United States, a significant portion of the Company's net earnings are earned by its U.S. operations. Historical consolidated results have been restated using a translation of convenience, whereby all historical results have been reflected using the exchange rate in effect on December 31, 2001 of \$1 U.S. to \$1.5928 CDN.

Foreign currency translation

The Company's Canadian operations are self-sustaining operations, with the exception of the Corporate office, which is considered to be an integrated operation. The assets and liabilities of the self-sustaining operations are translated at exchange rates in effect at the balance sheet date. Monetary assets and liabilities of the Corporate office are translated at exchange rates in effect at the balance sheet date. All other assets and liabilities of the Corporate office are translated at historical exchange rates. Revenues and expenses are translated at average exchange rates prevailing during the period. Unrealized gains or losses resulting from translating self-sustaining operations are accumulated and reported as currency translation adjustment in shareholders' equity. Unrealized gains or losses resulting from translating the Corporate office accounts are included in the determination of earnings.

Customer deposits

Customer deposits principally include prepayments by the Food Group's customers for merchandise inventory to be purchased during the spring planting season.

Income taxes

The Company follows the asset and liability method of accounting for income taxes whereby future income tax assets are recognized for deductible temporary differences and operating loss carry-forwards, and future income tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the amounts of assets and liabilities recorded for income tax and financial reporting purposes. Future income tax assets are recognized only to the extent that management determines that it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment. The income tax expense or benefit is the income tax payable or refundable for the period plus or minus the change in future income tax assets and liabilities during the period.

Employee stock compensation

Employee/director stock options granted by the Company contain exercise prices which are equivalent to the closing market price of the shares on the day prior to the grant date. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to capital stock. No compensation expense is recorded upon issuance of stock options to employees. Stock options granted have a maximum life of six years and usually vest over a four year period.

Derivative instruments

The Food Group enters into exchange-traded commodity futures and options contracts to hedge its exposure to price fluctuations on grain transactions to the extent considered practicable for minimizing risk from market price fluctuations. Futures contracts used for hedging purposes are purchased and sold through regulated commodity exchanges. Inventories, however, may not be completely hedged, due in part to the Company's assessment of its exposure from expected price fluctuations. Exchange purchase and sales contracts may expose the Company to risk in the event that a counter party to a transaction is unable to fulfill its contractual obligation. The Company manages its risk by entering into purchase contracts with pre-approved producers.

The Company has a risk of loss from hedge activity if a grower does not deliver the grain as scheduled. Sales contracts are entered into with organizations of acceptable creditworthiness, as internally evaluated. All futures transactions are marked to market. Gains and losses on futures transactions related to grain inventories are included in cost of goods sold.

Earnings per share

Basic earnings per share are computed by dividing the income available for common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the treasury stock method whereby the weighted average number of common shares used in the basic earnings per share calculation is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued.

Use of estimates

The preparation of these consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

2. BUSINESS ACQUISITIONS**2002**

During 2002, the Company acquired four businesses (2001 – three businesses). The acquisitions have been accounted for using the purchase method, and accordingly, the consolidated financial statements include the results of operations of the acquired businesses from the date of the acquisitions. The purchase price has been allocated to the assets acquired and the liabilities assumed based on management's best estimate of fair values.

The net assets acquired in 2002 and the consideration given are summarized below:

	Opta Food Ingredients, Inc. (a)	Other Acquisitions (b)	Total
	\$	\$	\$
Net assets acquired			
Cash	7,611	(188)	7,423
Short term investments	2,038	–	2,038
Non-cash working capital	5,580	49	5,629
Property, plant and equipment	5,020	410	5,430
Goodwill and intangibles	–	1,790	1,790
Future income tax asset	10,056	–	10,056
Long-term debt	(1,705)	(258)	(1,963)
	28,600	1,803	30,403
Consideration given			
Contingent consideration	–	304	304
Due to former shareholders	1,871	–	1,871
Cash	26,729	1,499	28,228
	28,600	1,803	30,403

(a) Opta Food Ingredients, Inc.

On December 4, 2002 the Company completed a cash tender offer for the outstanding common shares of Opta Food Ingredients, Inc. (Opta). Approximately 92.6% of the outstanding common shares were tendered on December 4, 2002 for \$2.50 per share in cash in accordance with the tender offer. On December 18, 2002 the Company amalgamated Opta with Stake Acquisition Corp, a wholly owned subsidiary. As a result of this amalgamation, the 7.4% of the outstanding common shares of Opta were converted to a right to receive \$2.50 per share in cash from the Company, amounting to \$1,871. This amount was disbursed subsequent to December 31, 2002.

Opta is a leading innovator, manufacturer and marketer of proprietary food ingredients that improve the nutritional content, healthfulness, texture and taste of its customers' food products. Opta is the world's largest supplier of oat fiber to the food industry.

(b) Simply Organic Co. Ltd.

On December 1, 2002 the Company acquired 100% of the outstanding common shares of Simply Organic Co. Ltd. for cash consideration of \$187. In addition, contingent consideration of \$160 may be payable if certain predetermined profit targets are achieved by the acquired business. The full amount of contingent consideration has been accrued at December 31, 2002, however, no contingent consideration was paid in 2002.

Simply Organic Co. Ltd. is an Ontario, Canada based distributor of a broad range of regionally and internationally grown and produced certified organic food products, distributed throughout much of Ontario to mass market and natural food retail outlets.

Wild West

On November 1, 2002, the Company acquired 100% of the outstanding common shares of 632100 B.C. Ltd., successor to Wild West Organic Harvest Co-Operative Association (Wild West) for cash consideration of \$889. In addition, contingent consideration of \$144 may be payable if certain predetermined profit targets are achieved by the acquired business. The full amount of contingent consideration has been accrued at December 31, 2002, however, no contingent consideration was paid in 2002.

Wild West is a British Columbia, Canada based distributor of certified organic and natural food products throughout Western Canada to mass market and natural food retail outlets.

Virginia Materials and International Materials

Under the terms of the Virginia Materials acquisition completed on October 31, 2001, the Company agreed to pay the vendor contingent consideration equivalent to 50% of the pre-tax profit generated by these businesses for a two year period from the date of acquisition. In December 2002, the Company reached an agreement with the vendor to fix the contingent consideration for the period from January 1, 2003 to October 31, 2003 at \$500. This amount has been reflected in accounts payable and accrued liabilities at December 31, 2002 and an equivalent amount has been reflected in goodwill. During the year ended December 31, 2002, the Company paid \$1,031 (2001 - \$89) in respect of the contingent consideration. The payment of this amount resulted in an equivalent increase in goodwill.

On November 1, 2002, the Company acquired the remaining 49% minority interest in International Materials & Supplies, Inc. (International Materials), for cash consideration of \$125.

Organic Kitchen

On July 2, 2002, the Company acquired certain assets and the businesses of Organic Kitchen Inc. and Cloud Mountain Inc. Consideration consisted of \$297 paid in cash on closing. In addition, the Company will pay 10% of the pre-tax profits earned to December 31, 2005, up to a maximum of \$1,268. This contingent consideration will be recorded as an increase to goodwill when the amount of the contingency is determinable. No contingent consideration was paid in 2002.

Organic Kitchen Inc. owns the trademark "Organic Kitchen" which is utilized in the sale of various organic products in Canada. Cloud Mountain Inc. sources organic animal feed for the production of organic animals. The acquisition of these businesses is in line with the Company's strategy to expand its natural and organic food business in Canada.

2001

The net assets acquired in 2001 and the consideration given are summarized below:

	Virginia Materials and International Materials (a) \$	First Light Foods (b) \$	Total \$
Net assets acquired			
Cash	9	—	9
Non-cash working capital	342	—	342
Property, plant and equipment	1,440	—	1,440
Other long-term assets	43	—	43
Goodwill and intangibles	1,562	2,511	4,073
Long-term debt	(338)	—	(338)
Net future income tax liability	(81)	(698)	(779)
	2,977	1,813	4,790
Consideration given			
Common shares	—	796	796
Warrants	—	8	8
Note payable	—	659	659
Deferred purchase consideration	1,145	—	1,145
Contingent consideration paid	89	—	89
Cash	1,743	350	2,093
	2,977	1,813	4,790

(a) Virginia Materials and International Materials

On October 31, 2001, the Company's wholly owned subsidiary, Virginia Materials, Inc. (Virginia Materials), acquired certain assets of Virginia Materials and Supplies, Inc. as well as 51% of the outstanding common shares of International Materials and Supplies, Inc. (International Materials) for cash consideration (including acquisition costs) of \$1,743, deferred purchase consideration of \$1,145 and contingent consideration.

The deferred purchase consideration will be paid on the purchase of the vendor's inventory. During 2002, the Company recorded an additional \$609 in deferred purchase consideration. The recording of this liability in 2002, resulted in a corresponding increase in goodwill. During the year the Company paid \$982 (2001 – \$109) in deferred purchase consideration. The remaining deferred purchase consideration will be paid in 2003.

Virginia Materials is a supplier of abrasives to the shipbuilding and bridge repair industry. International Materials produces industrial garnets as a by-product from a mining operation and processes these garnets for sale to the water filtration, water jet cutting and abrasives markets.

(b) First Light Foods

On February 1, 2001, the Company acquired 100% of the common shares of Jenkins and Gournoe, Inc., which operated in the United States under the name of First Light Foods. Consideration consisted of the issuance of 833,333 common shares, \$350 in cash, a \$659 note payable plus interest at 8.5% (subsequently paid in 2002) and 35,000 warrants exercisable at \$1.70 for five years to February 2006. In addition, contingent consideration may be payable on this acquisition; (a) if certain predetermined profit targets are achieved by the acquired business, up to an additional 140,000 warrants may be issued in 2002 through to 2005, and (b) a percentage of gross profits in excess of \$1,100 per annum from 2001 to 2005 will be paid to the vendors of First Light Foods. Contingent consideration will be recorded as an increase to trademarks, when the amount of the contingency is determinable. No contingent consideration was paid in 2002 (2001 – \$nil).

First Light Foods owns several trademarked brands that are marketed as the private label brands of a major food chain. The acquisition of First Light Foods complemented the Food Group's a vertically integrated soymilk strategy.

3. NOTE RECEIVABLE

Prior to the Company's acquisition of Northern Food & Dairy Inc. (Northern) on September 15, 2000, Northern signed an agreement with a major customer to supply a natural food product. This agreement required Northern to expand its food processing plant to the customer's specifications. In accordance with the terms of the agreement, the customer is required to pay Northern 36 monthly instalments of \$119 commencing October 2000. The agreement also requires Northern to provide the customer with a product rebate beginning three years after production at the new plant commences until \$1,720 is repaid.

Upon acquisition of Northern on September 15, 2000, the Company assigned fair values of \$3,425 to the note receivable and \$1,075 to the product rebate payable based on the cash flows associated with these financial instruments discounted at a rate of 9.5%.

During 2002, Northern received payments of \$1,425 (2001 – \$1,393) and recorded imputed interest income of \$156 (2001 – \$271) on the note receivable. Imputed interest expense of \$121 (2001 – \$106) was recorded on the product rebate payable.

4. INVENTORIES

	2002 \$	2001 \$
Raw materials	7,859	6,026
Finished goods	11,750	6,323
Grain	3,380	1,472
	22,989	13,821

Grain inventories consist of the following:

	2002 \$	2001 \$
Company owned grain	3,338	1,338
Unrealized gain (loss) on		
Sales and purchase contracts	(79)	100
Futures contracts	121	34
	3,380	1,472

5. PROPERTY, PLANT AND EQUIPMENT

	2002		
	Cost	Accumulated Amortization	Net
	\$	\$	\$
Land and buildings	22,423	1,033	21,390
Machinery and equipment	24,904	10,714	14,190
Office furniture and equipment	1,546	640	906
Vehicles*	575	28	547
	49,448	12,415	37,033
	2001		
	Cost	Accumulated Amortization	Net
	\$	\$	\$
Land and buildings	14,211	1,720	12,491
Machinery and equipment	23,707	6,128	17,579
Office furniture and equipment	1,205	630	575
Vehicles	545	307	238
	39,668	8,785	30,883

Included in land and buildings at December 31, 2002, are certain properties held for sale totaling \$5,020 (2001 – \$nil).

6. GOODWILL AND INTANGIBLES

	2002	2001
	\$	\$
Goodwill – at cost, less accumulated amortization of \$985 (2001 – \$985)	12,212	8,540
Trademarks (indefinite life)	2,498	2,498
Trademarks (definite life) – at cost, less accumulated amortization of \$6 (2001 – \$nil)	207	–
	14,917	11,038

7. OTHER ASSETS

	2002	2001
	\$	\$
Pre-operating costs, net of accumulated amortization of \$432 (2001 – \$161)	358	353
Deferred financing costs, net of accumulated amortization of \$201 (2001 – \$nil)	619	24
Investments	–	366
Other	178	157
	1,155	900

8. LONG-TERM DEBT AND BANKING FACILITIES

	2002	2001
	\$	\$
Term loan (a)	13,900	–
Tender facility (b)	15,186	–
Convertible debenture (c)	4,697	–
Other long-term debt (d)	2,966	16,648
	36,749	16,648
Less: current portion	(11,650)	(2,634)
	25,099	14,014

- (a) During 2002, the Company entered into a new financing arrangement with a major Canadian bank and the bank's U.S. subsidiary. Under the terms of this financing arrangement, total debt of \$15,447 was repaid on March 15, 2002 with the proceeds of the new agreement, which included the following components:

i) *Term loan*

Principal payable quarterly based on a seven year amortization. The term loan has a two year maturity and is renewable at the option of the lender and the Company.

Interest on the term loan is payable at the borrower's option at U.S. dollar base rate or U.S. LIBOR plus a margin based on certain financial ratios of the Company (3.0% as at December 31, 2002). As at December 31, 2002, \$13,900 (2001 – \$nil) was still outstanding.

ii) *\$3,169 (CDN \$5,000) line of credit facility*

Interest on borrowings under this facility accrues at the borrower's option based on various reference rates including Canadian or U.S. bank prime, or Canadian bankers' acceptances, plus a margin based on certain financial ratios of the Company (3.2% as at December 31, 2002). As at December 31, 2002 \$494 (CDN \$780) of this facility has been utilized. This amount has been offset with cash on hand at the same institution for financial statement presentation purposes.

iii) *\$5,000 line of credit facility*

Interest on borrowings under this facility accrues at the borrower's option based on various reference rates including U.S. bank prime, or LIBOR, plus a margin based on certain financial ratios of the Company (3.0% as at December 31, 2002). As at December 31, 2002 \$3,963 of this facility has been utilized.

Subsequent to December 31, 2002, the Company amended its financing arrangement. The amendment syndicated the financing arrangement to a group of banks which includes existing lenders and increased the term loan by \$7,800 to \$21,700. In addition, the U.S. line of credit facility was increased by \$4,000 to \$9,000. The Company used the incremental proceeds on the term loan, drew on the U.S. line of credit facility to the extent of \$3,500 and utilized \$3,886 of cash on hand to repay the tender facility obtained to finance the acquisition of Opta (note 2). As part of the amendment, the term loan matures in March of 2005. The Company fully intends to renew this term loan at that time. However, for financial statement purposes, the principal payments have been categorized as due in 2005.

The term loan and the Canadian and U.S. line of credit facilities described above are collateralized by a first priority security against substantially all of the Company's assets in both Canada and the United States.

- (b) On December 4, 2002, the Company entered into a tender financing arrangement with its principal lender to facilitate the Company's tender offer to purchase all of the outstanding common shares of Opta (note 2).

The tender facility had a maximum borrowing base of \$17,000. As at December 31, 2002, \$15,186 of this facility had been utilized. Interest on borrowings under this facility accrues at the borrower's option based on various reference rates including the bank's prime plus 100 basis points, or LIBOR plus 200 basis points (3.3% as at December 31, 2002).

Subsequent to December 31, 2002, the tender facility was repaid with cash and the incremental proceeds from the amended term loan and line of credit facilities, as described above.

- (c) On December 4, 2002, in conjunction with the acquisition of Opta, the Company issued a \$5,000 convertible debenture, with interest payable quarterly at 5.5% per annum. The debenture is convertible at the option of the holder at any time after November 30, 2003, or earlier under certain circumstances at the conversion price of \$3.00 per share. The Company has the option to repay the debenture at any time subject to certain restrictions within its amended banking arrangement. The convertible debenture expires and is fully payable on November 30, 2004.

In conjunction with the issuance of the convertible debenture, the Company issued 250,000 share purchase warrants with an exercise price of \$3.25. The warrants and the convertible right inherent in the debenture have been fair valued at \$317, as at December 4, 2002, and have been classified as a component of shareholders' equity. As a result, the fair value attributed to the debt component of the convertible debenture was \$4,683.

At December 31, 2002 the accreted fair value of the convertible debenture was \$4,697. The effective interest rate on the debenture at December 31, 2002 was 9.6%.

The convertible debenture is collateralized by a second priority security against certain of the Company's assets in the United States and Canada.

(d) Other long-term debt consists of the following:

	2002 \$	2001 \$
Note payable with required annual payments of \$95, interest at 5% payable semi-annually, uncollateralized.	285	377
Term loan assumed on acquisition of Wild West, payable in monthly instalments of \$4 until July 2007. Interest payable monthly at the Canadian prime rate plus 11%, collateralized by certain assets in Canada. This loan was fully repaid subsequent to December 31, 2002.	299	—
Term loan assumed on acquisition of Opta, payable in quarterly instalments of \$27 including interest at 7.4% due June 2003, collateralized by certain assets in the United States. This loan was fully repaid subsequent to December 31, 2002.	1,705	—
Other debt with a weighted average interest rate of 9.2%, due in varying instalments through July 2007.	354	490
Capital lease obligations due in monthly payments through 2006, with a weighted average interest rate of 8.5%.	323	334
Long-term debt repaid on March 15, 2002 with proceeds from the new financing arrangement (as detailed in (a)) with a weighted average interest rate of 8.5%.	—	15,447
	2,966	16,648

(e) In addition to the line of credit facilities noted above, the Company has a \$200 margin financing facility, of which \$93 was utilized as at December 31, 2002 (2001 – \$200) and is included in the current portion of the long-term debt.

(f) The loans and capital leases detailed above require payments as follows:

	\$
2003	11,650
2004	7,251
2005	17,671
2006	90
2007 and thereafter	87
	36,749

(g) Interest expense on long-term debt for the year ended December 31, 2002 was \$1,292.

(h) The fair value of long-term debt is not materially different from the carrying amount.

9. LONG-TERM PAYABLES

	2002 \$	2001 \$
Product rebate payable	1,330	1,209
Deferred purchase consideration	667	1,040
Preference shares of subsidiary companies	291	416
Payable to former shareholders of acquired companies	2,675	—
	4,963	2,665
Less: Current portion	(3,458)	(1,067)
	1,505	1,598

10. CAPITAL STOCK

The Company is authorized to issue an unlimited number of common shares without par value and an unlimited number of special shares without par value.

The following is a summary of changes in capital stock:

	Warrants and rights		Common shares		Total
	Number	\$	Number	\$	\$
Balance as at December 31, 1999	331,404	–	20,653,788	7,008	7,008
Warrants exercised (a)	(234,959)	–	234,959	332	332
Warrants expired	(96,445)	–	–	–	–
Options exercised (b)	–	–	298,225	274	274
Shares and warrants issued to acquire Northern (a)	500,000	19	7,000,000	6,625	6,644
Balance as at December 31, 2000	500,000	19	28,186,972	14,239	14,258
Shares and warrants issued to acquire					
First Light Foods (a)	35,000	8	833,333	796	804
Options exercised (b)	–	–	999,425	1,037	1,037
April 2001 private placement (c)	705,750	507	1,411,498	1,157	1,664
May 2001 private placement (c)	1,200,000	762	2,400,000	3,462	4,224
September 2001 private placement (c)	2,250,000	1,650	3,000,000	3,901	5,551
December 2001 private placements (c)	–	–	4,250,000	8,337	8,337
Balance as at December 31, 2001	4,690,750	2,946	41,081,228	32,929	35,875
Warrants exercised (c)	(656,150)	(430)	656,150	1,904	1,474
Warrants issued (a)	250,000	263	–	–	263
Warrants repurchased (a)	(60,000)	(43)	–	–	(43)
Options exercised (b)	–	–	246,740	397	397
Convertible right associated with convertible debenture	–	54	–	–	54
Balance as at December 31, 2002	4,224,600	2,790	41,984,118	35,230	38,020

(a) During 2002, 656,150 warrants were exercised at prices ranging from \$1.75 to \$2.40 for net proceeds of \$1,474. (2001 – nil warrants, \$nil net proceeds; 2000 – 234,959 warrants, \$332 net proceeds).

In conjunction with the convertible debenture issued in 2002 (note 8) the Company issued 250,000 warrants with a fair value of \$263, an exercise price of \$3.25, and an expiry date of November 30, 2004. The convertible right issued in conjunction with the convertible debenture has a fair value of \$54.

On April 2, 2002, 60,000 shareholder warrants with an exercise price of \$1.75 per unit, were repurchased by the Company for a net cost of \$39.

(b) Employee/director option plans

The Company grants options to employees and directors from time to time under employee/director stock option plans. The Company has authorized 3,586,800 (2001 – 2,086,800) shares to be made available for the stock option plans. The following is a summary of grants during the year.

Grant date	Expiry date	Exercise price	Number of options
March 11, 2002	March 11, 2007	\$2.15	114,000
August 13, 2002	August 13, 2007	\$3.07	98,100
November 7, 2002	November 7, 2007	\$3.04	43,000
December 16, 2002	December 16, 2007	\$3.00	160,000
			415,100

Employee/director stock options granted by the Company contain an exercise price, which is equivalent to the closing market price of the shares on the day prior to the grant date. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to capital stock.

The 415,100 options granted during 2002 vest as follows: 116,620 options vested in 2002, 74,620 vest per annum in 2003 to 2006.

During 2002, 246,740 (2001 – 999,425; 2000 – 298,225) options were exercised and the equivalent number of common shares were issued for net proceeds of \$397 (2001 – \$1,037; 2000 – \$274).

Details of changes in vested employee/director stock options are as follows:

	2002	2001	2000
Balance – Beginning of year	1,575,425	1,385,425	1,501,850
Granted with immediate vesting	116,620	1,066,525	108,000
Vested from prior year grants	185,975	137,900	76,800
Exercised	(246,740)	(999,425)	(298,225)
Retracted	(17,800)	(15,000)	(3,000)
Balance – End of year	1,613,480	1,575,425	1,385,425

Details of employee/director stock options exercisable as at December 31 are as follows:

Expiry date	Exercise price	Options
2003	\$1.06 to \$2.10	749,450
2004	\$1.06 to \$1.86	180,960
2005	\$1.06 to \$1.38	410,900
2006	\$1.53 to \$2.10	155,550
2007	\$2.15 to \$3.07	116,620
		1,613,480
Weighted average exercise price		\$ 1.69

At December 31, 2002, options to acquire an additional 587,780 common shares at \$1.06 to \$3.07 have been granted but have not yet vested. Options that have not vested are excluded from the above table. The weighted average exercise price of the 587,780 (2001 – 475,900; 2000 – 472,100) options granted but not vested is \$2.14 (2001 – \$1.44; 2000 – \$1.17).

On January 7, 2000, all options with an option price in excess of \$1.06 were repriced to \$1.06. In addition, on March 5, 2000, the Board approved a resolution extending the exercise period of 304,375 options from March 10, 2001 to December 31, 2003.

Subsequent to year-end, 213,225 options were exercised to acquire an equivalent number of common shares for net proceeds of \$389.

The fair value of the options granted during 2002, 2001 and 2000 was estimated using the Black-Scholes option-pricing model with the assumptions of a dividend yield of 0% for each year, an expected volatility of 60% (2001 – 30%; 2000 – 51%), a risk-free interest rate of 3% (2001 – 3%; 2000 – 5%), and an expected life of one to six years.

Pro-forma net earnings (loss), reflecting stock compensation expense for 2002, 2001 and 2000 are as follows:

	2002	2001	2000
Number of options granted	415,100	1,238,125	295,500
	\$	\$	\$
Total fair value	630	508	163
Net earnings for the year as reported	3,766	19	2,118
Stock compensation expense:			
Options vested in current year from current year grants	126	410	67
Options vested in current year from prior years grants	115	65	54
	241	475	121
Pro-forma net earnings (loss) for the year	3,525	(456)	1,997
Pro-forma net earnings (loss) per common share	0.08	(0.01)	0.09

(c) In 2001, the Company completed four private placements. The Company issued 11,061,498 common shares and 4,155,750 warrants to acquire 4,155,750 common shares for total proceeds of \$19,776 net of issuance costs. The following is a summary of the warrants issued:

Expiry date	Exercise price	Warrants	\$
March 31, 2004	\$1.75	705,750	507
March 31, 2004	\$2.40	1,200,000	762
September 30, 2004	\$2.40	2,250,000	1,650
		4,155,750	2,919

In addition, pursuant to the private placement agreements, the Company granted to their agents:

- i) Compensation warrants exercisable until June 8, 2003 to purchase 144,000 option units at \$2.00 per unit. If exercised in full, the Company will issue 144,000 common shares and 72,000 warrants exercisable at \$2.40 to acquire 72,000 common shares, which expire on March 31, 2004.

Subsequent to December 31, 2002, these warrants were exercised in full and the subsequently issued warrants were also exercised. The Company issued 246,000 shares for net proceeds of \$533.

- ii) Compensation warrants exercisable until September 28, 2003 to purchase 150,000 option units at \$2.00 per unit. If exercised in full, the Company will issue 150,000 common shares and 112,500 warrants exercisable at \$2.40 to acquire 112,500 common shares, which expire on September 30, 2004.

- (d) During 1997, the shareholders of the Company agreed to reduce the stated capital account of the Company's common shares by \$15,712 through the elimination of the deficit.

11. INCOME TAXES

The Company's effective income tax rate on consolidated earnings has been determined as follows:

	2002	2001	2000
Canadian statutory income tax rate	39.0%	42.0%	42.0%
Increase (decrease) by the effects of			
Reduction in valuation allowance	(13.2%)	(25.8%)	(71.7%)
Differences in foreign, capital gains manufacturing and processing and future income tax rates	(3.7%)	(1.5%)	(2.5%)
Application of prior years losses and scientific research expenditures carried forward	—	—	(27.7%)
Current year non-capital loss not recognized	—	—	18.2%
Other	(12.5%)	(74.1%)	7.1%
Effective income tax rate	9.6%	88.9%	(34.6%)
Net earnings before income taxes	4,167	166	1,573
Provision for (recovery of) income taxes	401	147	(545)

Future income taxes of the Company comprise the following:

	2002	2001
	\$	\$
Differences in property, plant and equipment basis	4,946	(2,829)
Capital and non-capital losses	6,443	759
Tax benefit of scientific research expenditures	2,112	1,334
Other	613	56
	14,114	(680)
Valuation allowance	(4,107)	(479)
	10,007	(1,159)
	2002	2001
	\$	\$
Future income tax asset	10,007	663
Future income tax liabilities	—	(1,822)
	10,007	(1,159)

The Company has approximately \$5,020 (2001 – \$4,090) in Canadian scientific research expenditures, which can be carried forward indefinitely to reduce future years' taxable income. The Company also has approximately \$120 (2001 – \$95) in Canadian scientific research investment tax credits.

The Company has U.S. non-capital loss carry-forwards of approximately \$20,963 as at December 31, 2002 (2001 – \$1,664) available to reduce future federal and state income taxes and expire in varying amounts from 2008 to 2020.

A valuation allowance of \$4,107 (2001 – \$479) has been recorded to reduce the net benefit recorded in the consolidated financial statements related to the capital and non-capital loss carry-forwards. The valuation allowance is deemed necessary as a result of the uncertainty associated with the ultimate realization of these future tax assets.

12. SUPPLEMENTAL CASH FLOW INFORMATION

	2002 \$	2001 \$	2000 \$
Changes in non-cash working capital, net of businesses acquired:			
Accounts receivable – trade	(4,712)	315	1,138
Inventories	(3,086)	(3,383)	(1,506)
Prepaid expenses and other current assets	579	(404)	(295)
Accounts payable and accrued liabilities	1,271	(135)	(1,817)
Customer deposits	(969)	533	(261)
	(6,917)	(3,074)	(2,741)
Cash paid for:			
Interest	1,632	1,789	851
Income taxes	1,373	405	279

13. RELATED PARTY TRANSACTIONS AND BALANCES

In addition to transactions disclosed elsewhere in these consolidated financial statements, the Company entered into the following related party transactions:

- (a) During 2002, the Company charged affiliated companies \$nil for services rendered (2001 – \$84).
- (b) Included in other current assets as at December 31, 2002 is \$75 (2001 – \$33) due from officers/directors of the Company. Subsequent to December 31, 2002, \$50 was received in respect of this amount.
- (c) Included in other long-term debt as at December 31, 2001 were uncollateralized loans of \$1,097 due to shareholders, which were repaid during 2002.

14. COMMITMENTS AND CONTINGENCIES

- (a) Various claims or potential claims arising in the normal course of business are pending against the Company. It is the opinion of management that these claims or potential claims are without merit and the amount of potential liability, if any, to the Company is not determinable. Management believes the final determination of these claims or potential claims will not materially affect the financial position or results of the Company. Legal counsel has concluded the outcome of these claims or potential claims is not determinable.
- (b) The Company believes, with respect to both its operations and real property that it is in material compliance with current environmental laws. Based on known existing conditions and the Company's experience in complying with emerging environmental issues, the Company is of the view that future costs relating to environmental compliance will not have a material adverse effect on its financial position, but there can be no assurance that unforeseen changes in the laws or enforcement policies of relevant governmental bodies, the discovery of changed conditions on the Company's real property or in its operations, or changes in use of such properties and any related site restoration requirements, will not result in the incurrence of significant costs. No provision has been made in these consolidated financial statements for these future costs since such costs, if any, are not determinable at this time.
- (c) In the normal course of business, the Food Group holds grain for the benefit of others. The Company is liable for any deficiencies of grade or shortage of quantity that may arise in connection with such grain.
- (d) Letters of credit:
 - i) An irrevocable letter of credit for \$475 has been placed with the Ontario Ministry of Environment and Energy as a security deposit for the Certificate of Approval granted to the Company for certain recycling activities. This letter of credit must remain in place indefinitely as a condition of the Certificate of Approval.
 - ii) An irrevocable letter of credit for \$195 has been placed with the Commonwealth of Virginia Department of Environmental Qualities as a security deposit for the Certificate of Approval granted to the Company for certain recycling activities. This letter of credit must remain in place indefinitely as a condition of the Certificate of Approval.
 - iii) Additional letters of credit totaling \$28 have been placed with third parties as security on transactions occurring in the ordinary course of operations.

(e) Commitments under operating leases, principally for distribution centres, warehouse and equipment, are as follows:

	\$
2003	1,672
2004	1,595
2005	1,514
2006	1,474
2007	1,339
2008 and thereafter	1,430
	9,024

15. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the weighted average number of shares outstanding. Diluted earnings per share reflect the dilutive effect of the exercise of warrants and options as disclosed in note 10. The number of shares for the diluted earnings per share was calculated as follows:

	2002	2001	2000
Weighted average number of shares used in basic earnings per share	41,547,302	32,220,352	22,975,986
Dilutive potential of the following			
Employee/director stock options	765,034	150,191	381,744
Warrants	747,459	85,392	—
Weighted average number of shares used in diluted earnings per share	43,059,795	32,455,935	23,357,730

Warrants to purchase 250,000 common shares, options to purchase 301,100 common shares and the convertible debenture convertible into 1,666,667 common shares have been excluded from the calculations of diluted earnings per share due to their anti-dilutive effect.

16. FINANCIAL INSTRUMENTS

The Company's financial instruments recognized in the consolidated balance sheets and included in working capital consist of cash and cash equivalents, restricted cash, short term investments, accounts receivable, other receivables, accounts payable and accrued liabilities and customer deposits. The fair values of these instruments approximate their carrying value due to their short-term maturities.

The Company's financial instruments that are exposed to credit risk include cash and cash equivalents, short term investments and accounts receivable. The Company places its cash, cash equivalents and short term investments with institutions of high creditworthiness. The Company's trade accounts receivable are not subject to a high concentration of credit risk. The Company routinely assesses the financial strength of its customers and, as a consequence, believes that its accounts receivable credit risk exposure is limited. The Company maintains an allowance for losses based on the expected collectibility of the accounts.

Information on the Company's other financial instruments is contained in other notes to the consolidated financial statements.

17. SEGMENTED INFORMATION

Industry segments

The Company operates in three industry segments: (a) the Food Group, processes, packages and distributes a wide range of natural and organic food products via its vertically integrated operations with a focus on soy, natural and organic food products; (b) the Environmental Industrial Group, processes, distributes, and recycles industrial minerals; and (c) the Steam Explosion Technology Group, markets proprietary steam explosion technology systems for the pulp and food processing industries. The Company's assets, operations and employees are located in Canada and the United States.

2002

	Food Group \$	Environmental Industrial Group \$	Steam Explosion Technology Group and Corporate \$	Consolidated \$
External revenues by market				
U.S.	89,088	8,305	157	97,550
Canada	2,936	15,902	—	18,838
Other *	4,295	215	—	4,510
Total revenues to external customers	96,319	24,422	157	120,898
Interest expense	1,034	320	59	1,413
Provision for (recovery of) income taxes	1,146	1,115	(1,860)	401
Segment net earnings (loss)	3,166	1,741	(1,141)	3,766
Identifiable assets	85,040	21,981	8,266	115,287
Amortization	2,995	861	274	4,130
Expenditures on property, plant and equipment	3,306	1,058	100	4,464

2001

	Food Group \$	Environmental Industrial Group \$	Steam Explosion Technology Group and Corporate \$	Consolidated \$
External revenues by market				
U.S.	66,408	5,365	359	72,132
Canada	200	14,124	—	14,324
Other	3,365	1	—	3,366
Total revenues to external customers	69,973	19,490	359	89,822
Interest expense	1,423	291	31	1,745
Provision for (recovery of) income taxes	186	170	(209)	147
Segment net earnings (loss)	310	491	(782)	19
Identifiable assets	51,073	16,948	12,040	80,061
Amortization	2,889	705	112	3706
Expenditures on property, plant and equipment	2,590	1,290	27	3,907
Equity accounted investment	—	—	366	366

2000

	Food Group \$	Environmental Industrial Group \$	Steam Explosion Technology Group and Corporate \$	Consolidated \$
External revenues by market				
U.S.	42,388	3,602	236	46,226
Canada	249	16,040	106	16,395
Other	1,199	—	—	1,199
Total revenues to external customers	43,836	19,642	342	63,820
Interest expense	698	261	—	959
Provision for (recovery of) income taxes	542	41	(1,128)	(545)
Segment net earnings	230	1,578	310	2,118
Amortization	1,075	537	138	1,750
Expenditures on property, plant and equipment	2,907	419	35	3,361

Geographic segments

	2002			2001		
	U.S. \$	Canada \$	Total \$	U.S. \$	Canada \$	Total \$
Property, plant and equipment	29,568	7,465	37,033	24,009	6,874	30,883
Goodwill and intangibles	11,655	3,262	14,917	9,429	1,609	11,038
Total assets	87,399	27,888	115,287	55,300	24,761	80,061

18. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES DIFFERENCES

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP) which conform in all material respects applicable to the Company with those in the United States (U.S. GAAP) during the periods presented, except with respect to the following:

Under U.S. GAAP, certain pre-operating costs of \$276 incurred in the year ended December 31, 2002, (2001 – \$32), deferred in these financial statements would be expensed. Amortization of \$271 in the year ended December 31, 2002, (2001 – \$161), related to pre-operating costs would not have been expensed.

On March 11, 2002, the Company committed to grant certain employees 114,000 options to acquire 114,000 common shares at \$2.15. These options were provided to employees contingent upon approval by the shareholders of the 2002 stock option plan. This approval was received on June 18, 2002. Under U.S. GAAP, the difference in stock price between the exercise price and the closing price the day immediately preceding the day of shareholders' approval is considered to be compensation expense. Accordingly, \$62 would be recorded under U.S. GAAP in 2002 as stock option compensation expense.

During 2001, the Company repriced certain options. As a result, for the year ended December 31, 2002 – \$nil (2001 – \$321; 2000 – \$33) would be recognized as stock option compensation expense under U.S. GAAP.

In conjunction with the issuance of the convertible debenture described in note 8 and 10 for Canadian GAAP purposes, the fair value of the convertible right was determined to be \$54. For U.S. GAAP purposes, the value of the right was determined to be \$383. For U.S. GAAP this amount has been measured and disclosed but will not be recorded until the option right is exercisable on November 30, 2003.

Under U.S. GAAP, the gain on dilution in the amount of \$nil in 2002 (2001 – \$nil; 2000 – \$88) resulting from the dilution of the Company's ownership of the common share equity of Easton would have been excluded from income and included as a separate component of shareholder's equity as Easton is a development stage exploration company.

Effective January 1, 2002, the Company adopted the U.S. dollar as its reporting currency. Under Canadian GAAP historical results were restated using a translation of convenience, whereas under U.S. GAAP, the consolidated financial statements would be restated on a retroactive basis. The effect of this adjustment would not be material.

Accordingly, the following would have been reported under U.S. GAAP:

	2002 \$	2001 \$	2000 \$
Net earnings for the year – as reported	3,766	19	2,118
Dilution gain	–	–	(88)
Pre-operating costs amortized	271	161	–
Pre-operating costs capitalized	(276)	(32)	(482)
Stock option compensation expense	(62)	(321)	(33)
Tax effect of above items	2	(52)	228
Net earnings (loss) for the year – U.S. GAAP	3,701	(225)	1,743
Net earnings (loss) per share – U.S. GAAP	0.09	(0.01)	0.07
Weighted average number of common shares			
Outstanding	41,547,302	32,220,352	22,975,986
Shareholders' equity – as reported	49,527	43,500	20,892
Cumulative pre-operating costs, net of amortization, net of tax	215	212	289
Cumulative stock compensation expense	(416)	(354)	(33)
Shareholders' equity – U.S. GAAP	49,326	43,358	21,148

Comprehensive income

U.S. GAAP requires that a comprehensive income statement be prepared. Comprehensive income is defined as "The change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner events". It includes all changes in equity during a period, except those resulting from investments by owners and distribution to owners. The comprehensive statement reconciles the reported net income to the comprehensive income.

The following is a comprehensive income statement (prepared in accordance with U.S. GAAP), which, under U.S. GAAP, would have the same prominence as other financial statements.

	2002	2001	2000
	\$	\$	\$
Net earnings (loss) for the year – U.S. GAAP	3,701	(225)	1,743
Currency translation adjustment	112	971	162
Comprehensive income for the year	3,813	746	1,905

Other U.S. GAAP disclosures

	2002	2001
	\$	\$
Allowance for doubtful accounts	1,491	1,117
Accrued payroll	1,235	1,059

19. COMPARATIVE BALANCES

Certain comparative account balances have been reclassified to achieve comparability to current year's balances.

RECENT ACCOUNTING DEVELOPMENTS

Effective January 1, 2003, the Company will adopt, SFAS no. 143, "Accounting for Asset Retirement Obligations". Under SFAS No. 143, retirement obligations will be recognized when incurred and recorded as liabilities at fair value. The liability will be accreted over time through periodic charges to earnings. In addition, the asset retirement cost will be capitalized as part of the asset's carrying value and depreciated over the asset's useful life. The adoption of the new standard will not have a significant impact on the Company's results of operations or financial condition.

Effective January 1, 2003, the Company will adopt SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 applies to costs associated with an exit activity that does not involve an entity newly acquired in a business combination, an asset retirement obligation covered by SFAS No. 143 or with a disposal activity covered by SFAS No. 144. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity shall be recognized and measured initially at its fair value in the period in which the liability is incurred provided that such fair value can be reasonably estimated. An exception applies for certain one-time termination benefits that are incurred over time. The adoption of the new standard is not expected to have a significant impact on the Company's results of operations or financial condition.

Effective January 1, 2003, the Company will adopt SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment of FAS 123." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company currently discloses proforma net earnings and earnings per share data and will comply with the further disclosures as required by SFAS No. 148 starting in January 1, 2003.

SUPPLEMENTAL FINANCIAL INFORMATION (Unaudited)

	Quarter ended December 31		Quarter ended September 30	
	2002	2001	2002	2001
Revenues	33,437	23,811	32,800	22,904
Cost of goods sold	28,000	20,723	27,510	20,093
Gross profit	5,437	3,088	5,290	2,811
Selling, general and administrative expenses	4,835	3,732	3,240	2,536
Earnings (loss) before the following	602	(644)	2,050	275
Interest expense	(383)	(338)	(302)	(398)
Interest and other income (expense)	(20)	(4)	30	102
Foreign exchange gain (loss)	36	19	(322)	347
	(367)	(323)	(594)	51
Earnings (loss) before income taxes	235	(967)	1,456	326
Provision for (recovery of) income taxes	(277)	283	(71)	170
Net earnings (loss) for the year	512	(684)	1,527	156
Net earnings (loss) per share for the year				
Basic	0.01	(0.02)	0.04	0.00
Diluted	0.01	(0.02)	0.04	0.00

	Quarter ended June 30		Quarter ended March 31	
	2002	2001	2002	2001
Revenues	31,378	23,988	23,283	19,119
Cost of goods sold	25,942	20,180	19,979	16,454
Gross profit	5,436	3,808	3,304	2,665
Selling, general and administrative expenses	3,223	2,494	2,983	2,380
Earnings before the following	2,213	1,314	321	285
Interest expense	(306)	(519)	(422)	(489)
Interest and other income	97	143	111	87
Foreign exchange gain (loss)	466	(41)	(4)	27
	257	(417)	(315)	(375)
Earnings before income taxes	2,470	897	6	(90)
Provision for income taxes	766	372	(17)	112
Net earnings for the year	1,704	525	23	22
Net earnings per share for the year				
Basic	0.04	0.02	0.00	0.00
Diluted	0.04	0.02	0.00	0.00

Management's Discussion and Analysis of Financial Conditions and Results of Operations

OVERVIEW

The Company's consolidated financial statements include the results of the organizations three principal operating groups; the Food Group, accounting for approximately 80% of 2002 revenues, with a focus on vertically integrated sourcing, processing and selling of soy and other natural and organic food products; the Environmental Industrial Group accounting for approximately 20% of 2002 revenues, with a focus on processing, distributing and recycling industrial minerals; and the Steam Explosion Technology Group accounting for less than 1% of 2002 revenues, with a focus on developing and commercializing proprietary steam explosion technology for processing of biomass into higher value products. All three operating groups are considered high growth ethical businesses, focused on environmental responsibility and the health and well being of its communities.

The Management's Discussion and Analysis (MD&A) is presented in four parts; Results of Operations, Liquidity and Capital Resources, Business Outlook and Risks and Uncertainties, and should be read in conjunction with the audited consolidated financial statements and accompanying notes contained on pages F-1 to F-36 of this Annual Report.

In 2002, the Company adopted the United States dollar as its reporting currency for presentation of its consolidated financial statements. With the acquisitions completed in 2001 and 2002, a significant portion of the Company's revenues, assets and earnings are attributable to its U.S. based operations. Historical consolidated results have been restated using a translation of convenience, whereby all historical results have been reflected using the exchange rate in effect on December 31, 2001 of \$1.00 U.S. to \$1.5928 CDN.

In 2002, the Company completed four acquisitions; Organic Kitchen, Wild West, Simply Organic and Opta, and also launched a new business unit, Sunrich Valley. All four acquisitions and the business launch served to complement the Company's vertically integrated growth strategy in the rapidly vertically integrated growing, value-added natural and organic foods markets. The acquisitions of Organic Kitchen, an integrated organic poultry producer, Wild West, a Western Canada based natural and organic foods distributor and Simply Organic, a Central Canada based natural and organic foods distributor, in addition to the start-up of Sunrich Valley, which markets organic dairy products, have positioned Stake Technology Ltd. as a major player in the Canadian natural and organic foods markets. The acquisition of Opta, with operations in both the United States and Canada, further strengthened the Company's presence in the value-added food ingredients market. Opta is the world's largest supplier of oat fiber to the food industry.

Revenues in 2002 increased by 34.6% to \$120,898,000 from \$89,822,000 in 2001. Gross margin on revenues improved to 16.1% from 13.8% in the prior year. Net earnings for the year increased to \$3,766,000 or \$0.09 per common share compared to \$19,000 or \$0.00 per common share in 2001.

Operating results in 2002 improved significantly over 2002 due to a number of factors including the turnaround at the Company's aseptic packaging operation, Nordic Aseptic, and improved results in other Food Group operations, including grain sales and food ingredients. The Environmental Industrial Group also reported improved earnings due in most part to the acquisition of Virginia Materials in the fourth quarter of 2001. The growth of the Group was partially offset in 2002 by the general economic slowdown in the foundry and steel industries and the impact of the September 11th tragedy on the bridge repair and shipbuilding industries, however, these industries have shown improvement in the latter half of 2002.

Three of the four acquisitions noted above were completed late in fiscal 2002 and therefore did not have a significant impact on operating results in 2002.

The assets of the Company increased by \$35,226,000 or 44.0% to \$115,287,000 at December 31, 2002, due primarily to growth within existing operations and the acquisitions completed during the year, all in accordance with the Company's growth strategy. Long-term debt increased to \$36,749,000, mainly as a result of financing related to acquisitions.

RESULTS OF OPERATIONS

2002 Operations Compared With 2001 Operations

Consolidated

Revenues in the year ended December 31, 2002, increased by 34.6% to \$120,898,000 from \$89,822,000 in 2001. Earnings increased to \$3,766,000 or \$0.09 per common share from \$19,000 or \$0.00 per common share in 2001.

The increase in the Company's revenues of \$31,076,000 in 2002 is due to a number of factors including increased sales of aseptic packaged soymilk products, increased sales of bulk grains, specialty beans and dietary fiber, the three acquisitions and one start-up within the Canadian natural and organic foods business in 2002, the acquisition of Opta Food Ingredients, Inc. in December 2002 and the acquisitions of the business and certain assets of Virginia Materials & Supplies, Inc. and the outstanding common shares of International Materials and Supplies, Inc. (Virginia Materials) in October, 2001.

Net earnings for the year ended December 31, 2002 increased to \$3,766,000 from \$19,000 in 2001, due to

improved financial performance at Nordic Aseptic, the Company's aseptic packaging operations, as well as improved volumes and margins in dietary fiber and certain grain and agronomy products. In addition, cost reduction programs implemented throughout the Company and certain price increases in the Environmental Industrial Group combined with the October 2001 Virginia Materials acquisitions contributed to improved earnings. The Company realized reduced borrowing costs as a result of new banking arrangements implemented in 2002 and had a reduced effective tax rate due to the recognition of previously unrecorded tax loss carry forwards and tax planning strategies, partially offset by the write-off of the Company's 32% investment in Easton Minerals Limited.

EBITDA¹ (earnings before interest expense, interest and other income, taxes, depreciation and amortization) for the year ended December 31, 2002 increased 79.4% to \$9,492,000 from \$5,291,000 in the prior year.

U.S. readers should note that due to differences between Canadian and U.S. GAAP, the net earnings for the year ended December 31, 2002 under U.S. GAAP were \$3,701,000 or \$0.09 per common share versus a loss of (\$225,000) or (\$0.01) per common share in 2001. Note 18 to the consolidated financial statements itemizes the nature of these differences.

Cost of goods sold increased by 31.0% to \$101,431,000 for the year ended December 31, 2002 compared to \$77,450,000 for the year ended December 31, 2001. Consistent with the revenue increase, the increase in cost of sales resulted from increased sales of certain food based products, the acquisitions completed during 2002 and a full year's revenue relating to acquisitions made in 2001.

The Company's consolidated gross margin improved to 16.1% in the year ended December 31, 2002 from 13.8% in 2001. The key drivers of this improvement are provided in the segmented operations information detailed below.

Selling, general and administrative expenditures increased 28.2% in the year ended December 31, 2002 to \$14,281,000 from \$11,142,000 in 2001. The increase in administrative costs is consistent with the growth in food operations, the 2002 acquisitions, the Virginia Materials acquisition completed in October 2001 and increased Corporate costs to support a rapidly growing public company. These increases were partially offset by a reduction in amortization expense as a result of the Company adopting the new CICA Handbook Section 3062 "Goodwill and Intangible Assets" on January 1, 2002, whereby goodwill and indefinite life intangibles are no longer amortized. Amortization of goodwill and indefinite life intangibles included in selling, general and administrative expenses in the year ended December 31, 2001 was \$492,000.

Interest expense decreased to \$1,413,000 in the year ended December 31, 2002 from \$1,745,000 in 2001. The decrease in borrowing costs relates mainly to a decrease in the effective borrowing rate due to the consolidation of a number of loans under the new financing arrangements which resulted in lower interest rates and a decrease in floating interest rates on certain debt instruments versus 2001.

Interest and other income was \$218,000 in the year ended December 31, 2002, compared to \$326,000 in the year ended December 31, 2001. Included in the results for the year ended December 31, 2002 is a write-down of the Company's 32% investment in Easton Minerals Limited of \$366,000, offset by a gain in the sale of non-core assets of \$285,000.

Provision for income taxes increased to \$401,000 in the year ended December 31, 2002, compared to \$147,000 in 2001. The effective tax rate decreased from 88.6% in 2001 (2001 included a tax refund of \$85,000 related to the reassessment of an acquired business) to 9.6% in 2002 mainly due to the realization of certain loss carry-forwards including the realization of the previously unrecorded Nordic loss carry-forwards of \$550,000 and tax planning strategies implemented by the Company.

Segmented Operations Information

Food Group

The Food Group contributed \$96,319,000 or 79.7% of total Company consolidated revenues in the year ended December 31, 2002 versus \$69,973,000 or 77.9% in the same period in 2001. The increase of \$26,346,000 or 37.7% (of which 31.4% was generated through internal growth), was due primarily to increased sales of aseptic packaged soymilk at Nordic Aseptic of \$12,808,000, an increase in sales of bulk grains and specialty beans, a supply contract cancellation fee of \$1,557,000 and the acquisitions of the Canadian natural and organic food companies and Opta in the second half of 2002.

Gross margin in the Food Group increased by \$4,364,000 in the year ended December 31, 2002 to \$13,197,000, or 13.7%, from \$8,833,000 or 12.6% in 2001. The increase in gross margin reflects the positive impact of improved product margins on organic feed, dietary fiber and various other specialty processed products, the impact of the turnaround at Nordic Aseptic, cost reduction initiatives undertaken throughout the Group, the supply contract cancellation fee and acquisitions completed in 2002, offset by lower margins on bulk grains and certain retail consumer products.

¹EBITDA is not a recognized measure under Canadian or United States generally accepted accounting principles (GAAP). Management believes that in addition to net earnings, EBITDA is a useful supplemental measure as it provides investors with an indication of earnings from operations prior to debt service, amortization and income taxes. Investors should be cautioned however, that EBITDA should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of the Company's performance or to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. The Company's method of calculating EBITDA may differ from other companies and, accordingly, EBITDA may not be comparable to measures used by other companies. As such, the Company's EBITDA is calculated as follows: Earnings before income taxes \$4,167 (2002 - \$166), interest expense \$1,413 (2002 - \$1,745), interest and other income (\$218) (2002 - (\$326)) and amortization expense \$4,130 (2002 - \$3,706).

Selling, general and administrative expenses increased to \$8,301,000 in the year ended December 31, 2002 versus \$6,297,000 in the year ended December 31, 2001. The increase is due primarily to an increase in payroll and related costs (as the organization continues to support the growth in operations), selling, general and administrative expenses incurred through acquisitions and legal costs associated with an action against a former supplier for failure to adhere to the terms of a supply contract, as detailed in Part II – Other Information.

Interest expense decreased to \$1,034,000 in the year ended December 31, 2002 from \$1,423,000 in the year ended December 31, 2001. The decrease was due to the refinancing of the majority of the Group's debt in March 2002, in addition to reductions in floating interest rates on certain debt instruments versus 2001, as noted above.

The Food Group net earnings increased to \$3,166,000 in the year ended December 31, 2002 from \$310,000 in 2001 as a result of the improved financial performance at Nordic Aseptic, improved volumes and margins on grains, specialty beans and dietary fiber. Net earnings also benefited from internal cost control programs, the supply contract cancellation fee, a one-time gain on sale of property and the reversal of a valuation allowance on the Nordic loss carry-forwards that was previously provided.

Environmental Industrial Group

The Environmental Industrial Group contributed \$24,422,000 or 20.2% of the Company's consolidated revenues in the year ended December 31, 2002, versus \$19,490,000 or 21.7% in 2001, an increase of \$4,932,000 or 25.3%. Revenues were favourably impacted by the acquisition of Virginia Materials in October 2001, partially offset by weak market and economic conditions in the Canadian steel and foundry businesses, the economic impact of the September 11th tragedy on the demand for abrasives and continued competition in the silica and coated sands markets.

Gross margin in the Environmental Industrial Group increased to \$6,112,000 in the year ended December 31, 2002 versus \$3,256,000 in the year ended December 31, 2001, an increase of \$2,856,000 or 87.7%. The increase in margin resulted primarily from the acquisition of Virginia Materials and improvements in price and sales mix, offset by a decrease in volume as a result of the economic conditions noted above. As a percentage of revenues, gross margin improved to 25.0% in 2002 from 16.7% in 2001.

Selling, general and administrative expenses increased to \$2,933,000 in the year ended December 31, 2002 from \$2,326,000 in 2001. The increase is due in most part to a full year of expenses in relation to Virginia Materials.

Interest expense was \$320,000 in the year ended December 31, 2002 compared to \$291,000 in 2001. The increase was due to an increase in debt as a result of the acquisition of Virginia Materials.

Net earnings improved significantly in the year ended December 31, 2002 to \$1,741,000 versus \$491,000 in 2001, due in most part to the addition of Virginia Materials and improved price and sales margins on certain products, offset by unfavourable economic and market conditions in the Canadian steel and foundry businesses and increased competitive pressures in key product groups.

Steam Explosion Technology Group

Revenues of \$157,000 in the year ended December 31, 2002 and \$359,000 in 2001 were derived primarily from licence fees. The decrease in revenues over the prior year is due to the uncertainty of collection of the second half of the annual licence fees. The remainder of the licence fee revenue will be recorded once collection becomes certain.

Cost of goods sold for the year ended December 31, 2002 was nil versus \$76,000 in 2001 (mainly amortization charges). The asset was fully amortized in 2001, and therefore no amortization was recorded in 2002.

Selling general and administrative expenses were \$332,000 in the year ended December 31, 2002 compared to \$270,000 in 2001. These costs reflect payroll and related expenses required to manage and maintain the business and prepare for implementation of the first sale of a StakeTech Steam Explosion Pulping System in China.

For the year ended December 31, 2002 the Group had a net loss before taxes of \$204,000 compared to a net loss before taxes of \$17,000 in 2001.

Corporate Activities

Selling, general and administration expenses were \$2,715,000 in the year ended December 31, 2002 compared to \$2,249,000 in the year ended December 31, 2001. The increase was due to an increase in the costs of administering a growing public company including incremental payroll and related costs, public relations, professional fees and financing costs, in addition to accrued costs in the settlement of a legal action as detailed in Part II – Other Information.

Commitments and contingencies

- (a) Various claims or potential claims arising in the normal course of business are pending against the Company. It is the opinion of management that these claims or potential claims are without merit and the amount of potential liability, if any, to the Company is not determinable. Management believes the final determination of these claims or potential claims will not materially affect the financial position or results of the Company. Legal counsel has concluded the outcome of these claims or potential claims is not determinable.
- (b) The Company believes, with respect to both its operations and real property that it is in material compliance with current environmental laws. Based on known existing conditions and the Company's

experience in complying with emerging environmental issues, the Company is of the view that future costs relating to environmental compliance will not have a material adverse effect on its financial position, but there can be no assurance that unforeseen changes in the laws or enforcement policies of relevant governmental bodies, the discovery of changed conditions on the Company's real property or in its operations, or changes in use of such properties and any related site restoration requirements, will not result in the incurrence of significant costs. No provision has been made in these consolidated financial statements for these future costs since such costs, if any, are not determinable at this time.

- (c) In the normal course of business, the Food Group holds grain for the benefit of others. The Company is liable for any deficiencies of grade or shortage of quantity that may arise in connection with such grain.
- (d) Letters of credit:
 - i) An irrevocable letter of credit for \$475 has been placed with the Ontario Ministry of Environment and Energy as a security deposit for the Certificate of Approval granted to the Company for certain recycling activities. This letter of credit must remain in place indefinitely as a condition of the Certificate of Approval.
 - ii) An irrevocable letter of credit for \$195 has been placed with the Commonwealth of Virginia Department of Environmental Qualities as a security deposit for the Certificate of Approval granted to the Company for certain recycling activities. This letter of credit must remain in place indefinitely as a condition of the Certificate of Approval.
 - iii) Additional letters of credit totalling \$28 have been placed with third parties as security on transactions occurring in the ordinary course of operations.
- (e) Commitments under operating leases, principally for distribution centres, warehouse and equipment, are as follows:

	\$
2003	1,672
2004	1,595
2005	1,514
2006	1,474
2007	1,339
2008 and thereafter	1,430
	<u>9,024</u>

2001 Operations Compared With 2000 Operations

Consolidated

Revenues in 2001 increased by \$26,002,000 or 40.7% to \$89,822,000, from \$63,820,000 in 2000. Net earnings in 2001 decreased to \$19 or \$0.00 per common share

compared to \$2,118,000 or \$0.09 per common share for the year ended December 31, 2000. The increase in the Company's revenues in 2001 was due to a number of factors including the acquisitions of First Light Foods (\$6,031,000) and Virginia Materials (\$883,000) plus the full year impact of the acquisitions completed in 2000. (PECAL, Northern, Nordic and Temisca).

Earnings decreased due to a number of factors including the significant operating issues at Nordic Aseptic, weak market/economic conditions that impacted the Environmental Industrial Group, increased costs of operating a growing public organization and the benefit of certain previously unrecognized income tax loss carry forwards having been fully realized in 2000.

EBITDA increased by 36.5% to \$5,291,000 from \$3,875,000 in 2000. The increase was due to increased amortization and interest expenses offset by lower earnings as noted above.

U.S. readers should note that due to differences between Canadian and U.S. GAAP, the loss for 2001 under U.S. GAAP was (\$225,000) or (\$0.01) per common share versus earnings of \$1,743,000 or \$0.07 per common share in 2000. Note 18 to the audited financial statements itemizes these differences.

Cost of sales increased by 41.7% to \$77,450,000 for the year ended December 31, 2001 compared to \$54,650,000 for the year ended December 31, 2000. Consistent with the revenue analysis above, the increase in cost of sales was related to the sales increase resulting from the acquisitions completed in 2000 and 2001.

The Company's consolidated gross margin was 13.8% in 2001 compared to 14.4% in 2000. Excluding the impact of the losses incurred related to Nordic Aseptic, gross margin increased to in excess of \$13,000,000 or 14.8%.

Selling, general and administration expenditures increased 57.1% in 2001 to \$11,142,000 compared to \$7,091,000 for the year ended December 31, 2000. The increase in administrative costs was due to the acquisitions made in 2000 and 2001, increased bad debt provisions, the higher costs of operating a larger public company and increased amortization of trademarks, patents and goodwill.

Interest expense increased to \$1,745,000 in 2001 from \$959,000 in 2000. The bulk of this increase was due to the Food Group's debt obligations related to acquisitions completed in 2000. Interest expense related to the increase in the Food Group totalled \$1,423,000 (\$698,000 in 2000). Canadian debt held by the Environmental Industrial Group and Corporate Office represents \$322,000 of interest expense in 2001 (\$261,000 in 2000).

Interest and other income decreased to \$326,000 in 2001 from \$407,000 in 2000.

The effective income tax rate increased in 2001 to 88.6% (2000 - (34.6%)) due in most part to loss carry forward benefits realized in 2000 and a proportionate increase in non-deductible expenses in 2001. In 2000 the Company

recorded the benefit of previously unrecognized Canadian tax loss carry forwards of \$1,129,000 and provided a tax provision of \$542,000 on the net earnings of the Food Group. Due to the complex US tax structure, the Company was unable to recognize the tax benefit of Nordic Aseptic's start-up losses. The Company has since restructured the Food Group, which provides for more effective tax strategies.

LIQUIDITY AND CAPITAL RESOURCES (AT DECEMBER 31, 2002)

Current assets

Cash and cash equivalents increased to \$7,012,000 at December 31, 2002 (2001 – \$3,364,000), primarily due to the conversion of \$6,307,000 of short term investments held at December 31, 2001 to cash and the removal of the restriction on \$1,147,000 of cash, as detailed below, offset by funding of certain working capital, capital projects and acquisitions.

As of December 31, 2002 the Company had restricted cash of \$nil (2001 – \$1,147,000) and short term investments of \$2,038,000 (2001 – \$6,307,000). The restricted cash at December 31, 2001 related primarily to funds restricted from the December 2001 private placement. These funds were subsequently received by the Company in April 2002 based on the Form S-3 registration statement being declared effective and clearance of the Ontario Securities Commission hold period.

The short term investments held at December 31, 2002 consist of short-term money market investments with maturity dates greater than 90 days from acquisition, obtained in the acquisition of Opta. The short term investments held at December 31, 2001 were funds held in a mutual fund corporation which held cash equivalents. These securities were disposed in 2002 and the proceeds invested in cash equivalents, as noted above.

Trade accounts receivable increased to \$18,144,000 at December 31, 2002 from \$8,377,000 at December 31, 2001. Trade receivables attributable to the Food Group as at December 31, 2002 were \$14,889,000 (2001 – \$5,088,000). The increase was primarily due to an increase in grain sales late in the year, an increase in sales of aseptic and soy concentrate products, the supply contract cancellation fee of \$1,557,000 which was received in early 2003 and the impact of acquisitions completed in 2002. Trade receivables in the Environmental Industrial Group were \$3,255,000 compared to \$3,289 in 2001.

The note receivable of \$1,034,000 at December 31, 2002 (2001 – \$2,303,000) and the product rebate payable included in long-term payables of \$1,330,000 (2001 – \$1,209,000) are related to an agreement with a major customer to supply product. This agreement required the Food Group to expand a food processing plant to the customer's specifications, which was completed in 2000. In accordance with the terms of the agreement the

customer committed to pay 36 monthly instalments of \$119,000, expiring September 2003. The agreement also requires the Company to provide the customer with a rebate based on product purchases beginning in October 2003 until such time as \$1,720,000 is repaid. Upon the application of purchase accounting in 2000, both the receivable and payable were fair valued using a discount rate of 9.5 %.

Inventories increased \$9,168,000 to \$22,989,000 at December 31, 2002. Inventories in the Food Group increased \$8,167,000 to \$18,492,000, primarily due to increased inventory of aseptic packaging goods, the acquisition of Opta, an increase in natural and organic product inventories in Canada as a result of acquisitions and seasonal grain inventories. Inventories in the Environmental Industrial Group increased \$1,001,000 to \$4,497,000, due in most part to the committed purchase of raw material inventories from the previous owner of Virginia Materials, as agreed in the October 2001 acquisition. The Steam Explosion Technology Group is not required to carry significant inventories.

Property, plant and equipment

In the year ended December 31, 2002, the Company spent \$4,464,000 (2001 – \$3,907,000) on capital expenditures. Of this, the Food Group expended \$3,306,000, with the larger projects being the acquisition of a boiler for the production facility in Afton, Wyoming and the acquisition of a CIP system for Nordic Aseptic. The Environmental Industrial Group expended \$1,058,000, of which, \$268,000 was spent on equipment refurbishment for a new plant to be opened in Baltimore, Maryland and the remaining on general additions and replacements. The Corporate Office and Steam Explosion Technology Group expended \$100,000, primarily on office and computer equipment to accommodate continued expansion.

Goodwill and intangibles

Goodwill increased to \$12,212,000 at December 31, 2002 from \$8,540,000 at December 31, 2001. The increase relates to the contingent consideration component and revised estimate of the deferred purchase consideration related to the acquisition of Virginia Materials and the Canadian natural and organic food acquisitions. No goodwill was recorded on the acquisition of Opta.

Indefinite life trademarks, valued at \$2,498,000 at December 31, 2002 remained unchanged from December 31, 2001. During the year the Company adopted the new CICA Handbook Section 3062 "Goodwill and Intangible Assets" The new standard eliminates the amortization of goodwill and certain intangibles. The Company believes that its trademarks "Rice Um" and "Soy Um", acquired through the acquisition of First Light Foods have an indefinite life and in accordance with the standard are no longer being amortized. The Company will assess the carrying value of these trademarks on an annual basis to determine if there is an impairment in their value.

Definite life trademarks, obtained in the acquisition of Organic Kitchen in July 2002 and the acquisition of Wild West in November 2002, increased to \$207,000 at December 31, 2002 (2001 – \$nil). These trademarks are being amortized over the life of the asset.

Future income taxes

Net future income tax assets of \$10,007,000, (including current portion of \$115,000) as at December 31, 2002 (2001 – net future income taxes liability of \$1,159,000) relate principally to loss carry-forwards recorded on the acquisition of Opta, loss carry-forwards available in the Food Group, scientific research expenditures credits available in Canada and differences between the accounting and tax basis of assets and liabilities primarily related to property, plant and equipment and intangibles.

Other assets

Other assets increased to \$1,155,000 at December 31, 2002 versus \$900,000 as at December 31, 2001. In 2002 the Company deferred \$276,000 (December 31, 2001 – \$32,000) in costs related to the start-up of an organic dairy business based in Canada. Amortization of these costs commenced in July 2002 and will be amortized on a straight-line basis to December 31, 2003. In 2000, the Company deferred \$482,000 of pre-operating costs related to Nordic Aseptic, which comprised the operating losses from April to December 31, 2000 that were related to the start-up phase of the plant. This amount is being amortized equally over a 36-month period. As at December 31, 2002, the unamortized balance of these items is \$358,000 (2001 – \$353,000). Readers should note that these pre-operating costs would have been expensed under U.S. GAAP.

In 2002 the Company deferred financing related costs of \$796,000 and has a net balance remaining of \$619,000 at December 31, 2002 (2001 – \$24,000). These costs are related to the conversion and consolidation of substantially all of the Company's and its subsidiaries outstanding debt to one major Canadian bank and its U.S. subsidiary. While the amortization period for the term loan is seven years, these costs are being written off over two years, which represents the first renewal date of the agreement.

Investments decreased to \$nil at December 31, 2002 from \$366,000 at December 31, 2001 as a result of a write-down in the Company's equity investment in Easton Minerals Limited.

At December 31, 2002, other items were \$178,000 versus \$157,000 at December 31, 2001.

Current liabilities

Accounts payable and accrued liabilities increased to \$19,664,000 at December 31, 2002 from \$12,831,000 at December 31, 2001. The increase is primarily due to an increase in base business and the acquisitions completed in 2002.

Customer deposits of \$421,000 at December 31, 2002 (2001 – \$1,389,000) relate to cash deposits made by Food Group customers in 2002 for purchases to be completed throughout the 2003 season. No recognition of revenue or accrual of costs is booked on these transactions until the goods are shipped. The significant decrease from the prior year relates to one particular customer who chose not to place funds on deposit prior to December 31, 2002 due to a change in internal policy, but is expected to continue to purchase goods from the Food Group throughout 2003.

New Financing Arrangement Replacing Existing Lines of Credit and Long Term Debt

During 2002, the Company entered into a new financing arrangement with a major Canadian bank and the bank's U.S. subsidiary. Subsequent to December 31, 2002, the Company entered into an amended financing arrangement with the existing lenders and a bank syndication agreement. The amended arrangement increased the term loan by \$7,800,000 to \$21,700,000 and the U.S. line of credit facility by \$4,000,000 to \$9,000,000. The Canadian line of credit facility remained unchanged at CDN \$5,000,000. The term loan is repayable quarterly and amortizes over seven years. All three facilities bear interest at various reference rates including U.S. bank prime, U.S. LIBOR and/or Canadian bank prime plus a premium based on certain financial ratios of the Company. The term loan has a two year maturity at which point the facility is renewable at the option of the lender and the Company. The Company fully expects to renew this facility.

Total debt of \$15,447,000 outstanding at December 31, 2001 was repaid during 2002 with the proceeds of the new financing arrangement.

The three facilities described above are collateralised by a first priority security against substantially all of the Company's assets in both Canada and the United States.

Bank indebtedness

Net bank indebtedness at December 31, 2002 is \$3,963,000 (2001 – \$1,206,000). The increase relates primarily to an increase in working capital requirements and capital acquisitions.

Long term debt

At December 31, 2002, the Company's long-term debt, including current portion, is \$36,749,000, an increase of \$20,101,000 from December 31, 2001. Included in long-term debt is a \$13,900,000 term loan, noted above prior to the amended arrangement, a \$5,000,000 convertible debenture with a fair value at December 31, 2002 of \$4,697,000, \$15,186,000 in a tender facility obtained to facilitate the December 2002 acquisition of Opta, and \$2,966,000 in other long-term debt. The tender facility was repaid subsequent to December 31, 2002 with cash and the incremental proceeds from the amended facilities as noted above. The increase from the prior year relates primarily to incremental financing obtained to finance the acquisition of Opta in the form of the convertible debenture and the tender facility.

Long-term payables

Total long-term payables (including current portion) at December 31, 2002 were \$4,963,000, compared to \$2,665,000 at December 31, 2001. Long-term payables consist of (1) the product rebate payable to a major customer as previously discussed, (2) deferred purchase consideration related to the acquisition of Virginia Materials, (3) preference shares of subsidiary companies, and (4) amounts payable to former shareholders of acquired companies.

The increase in 2002 is due in most part to the increase in amounts due to former shareholders of acquired companies of \$2,675,000, of which \$1,871,000 is due to former shareholders of Opta for untendered shares, which was paid subsequent to December 31, 2002. The remaining amount payable to former shareholders of acquired companies relates to the contingent consideration portions of the acquisitions of Virginia Materials completed in 2001, and Wild West and Simply Organic completed in 2002.

Cash flows

Net cash and cash equivalents increased \$3,648,000 during fiscal 2002 (2001 – \$272,000) to \$7,012,000 as at December 31, 2002 (2001 – \$3,364,000).

For the year ended December 31, 2002, cash provided by operations before working capital changes was \$6,989,000 (2001 – \$3,394,000), an increase of \$3,595,000 or 106%. The increase was due primarily to increased net earnings throughout the Company and the non-cash write-off of the Easton Minerals Limited investment, offset by the non-cash realization of loss carry-forwards.

Cash provided by operations after working capital changes was \$72,000 for the year ended December 31, 2002 (2001 – \$320,000), reflecting the utilization of funds for non-cash working capital of (\$6,917,000) (2001 – \$3,074,000). This utilization consists principally of an increase in accounts receivable (\$4,712,000), an increase in inventories (\$3,086,000) and a decrease in customer deposits (\$969,000), offset by an increase in accounts payable and accrued liabilities (\$1,271,000) and decrease in other current assets (\$579,000). The usage of cash flows to fund working capital in 2002 reflects the increase in working capital requirements required to fund the rapid growth in operations and the supply contract cancellation fee which was subsequently collected in January 2003.

Cash used in investment activities of \$18,546,000 in 2002 (2001 – \$11,042,000), reflects cash used to complete acquisitions, net of cash acquired, of \$21,919,000 (2001 – \$2,172,000) and acquisitions of property, plant and equipment of \$4,464,000 (2001 – \$3,907,000), offset by a decrease of short term investments for proceeds of \$6,307,000 (2001 – increase of (\$6,307,000)) and payments received on a note receivable of \$1,425,000 (2001 – \$1,393,000).

Cash provided by financing activities was \$22,031,000 in the year ended December 31, 2002 (2001 – \$13,383,000), consisting primarily of net borrowings from long-term facilities of \$17,943,000 (2001 – net repayments of (\$5,146,000)), net increase in operating lines of credit of \$2,757,000 (2001 – net decrease of (\$1,020,000)), decrease in restricted cash of \$1,147,000 (2001 – increase of (\$1,147,000)), net proceeds from the issuance of common shares of \$2,091,000 (2001 – \$20,813,000), offset by payment of deferred purchase consideration to the former owner of Virginia Materials of (\$982,000) (2001 – \$nil), deferred financing costs of (\$796,000) (2001 – \$nil) and the purchase and redemption of preference shares of subsidiary companies of (\$129,000) (2001 – (\$117,000)).

BUSINESS OUTLOOK

The natural and organic foods industries in the North American market are currently estimated to be in excess of \$10 billion, with a large number of companies competing in specific segments of the market. However, there are relatively few companies well positioned to take advantage of this rapidly growing market, currently estimated to be growing at 15 to 20% annually. The Food Group's vertically integrated business model coupled with its growth strategy based on a combination of internal growth and acquisitions, has positioned the Company as a leader in the North American natural and organic foods market.

The Company plans to continue to exercise this growth strategy in the future.

Based on current market projections and annualized results of the acquisitions completed in 2002, the Company expects revenues in 2003, excluding additional potential acquisitions, to be approximately \$175,000,000, a 45% increase over 2002. In addition, the Company's business plan includes strategies and initiatives designed to improve the underlying performance of the operations and to improve the quality of earnings. Specifically, the Company is looking to improve the strategic synergies across its Food Group operations, vertically integrating wherever possible. Initiatives to improve the productivity of the operations include continued training and development of employees, consolidated procurement and internal services programs, improved information systems to provide better analysis and timely decision-making and plant rationalization programs.

The Company expects to continue its rapid growth through an effective balance of internal growth and acquisitions, all in support of its vertically integrated field to table strategy. Growth will be financed by internally generated cash resources and a combination of debt and equity financing, as required, maintaining a target debt to equity ratio of 0.6 to 1. The Company will continue to devote

significant effort to increase returns on capital by improving its investment in working capital and capital projects with increased accountability and measurement.

As previously stated, the Company will continue to pursue strategic alternatives for its non-core operations; the Environmental Industrial Group and the Steam Explosion Technology Group. However, the Company will only divest itself of these operations if and when a strategy that is beneficial to the shareholders of Stake Technology Ltd. is identified. In 2002, the Environmental Industrial Group provided approximately 20% of the Company's consolidated revenues and net earnings of \$1,657,000. Based on current market projections, the Company anticipates the Group's results in 2003 will improve upon 2002 results. The Steam Explosion Technology Group continues to focus on selling the steam explosion technology to the China market and is also pursuing a number of potential food applications. The outlook for the Group for 2003 is uncertain due to the time and effort required to complete the signing of each contract.

RISKS AND UNCERTAINTIES

The Common Shares of the Company are speculative in nature and involve a high degree of risk. Accordingly, in analyzing an investment in these securities, prospective investors should carefully consider the following risk factors, together with all of the other information appearing, or incorporated by reference, in this document, in light of his or her particular financial circumstances and/or investment objectives.

Future Capital Needs

Certain of the Company's operations operate at, or near, capacity. Continued growth in these operations is reliant upon the Company's ability to increase capacity through internal capital projects or acquisition. The Company's ability to raise capital, through equity and/or debt financing, is directly related to its ability to continue to grow and improve returns from operations. Additional capital through equity financing may also result in additional dilution to the Company's shareholders.

Competition

The Company carries on its businesses in competition with companies and individuals with financial resources and staffs larger than the Company's and the Company is, therefore, subject to competitive factors over which it has little control or can otherwise affect.

Product Liability Claims

The Company's Food Group operates in a highly sterilized environment. However, the sourcing, processing, testing and sale of food products entail an inherent risk of allegations of product liability, and there can be no assurance that product liability claims will not be asserted against the Company. While the Company currently has product liability insurance coverage, it will be required to expand such coverage as new products are introduced into

the market and/or additional capacity is added. The availability of such insurance coverage in the future at cost effective prices may have a negative impact on results. Furthermore, there can be no assurance that such insurance coverage will be adequate, or that a product liability claim, even one without merit, would not materially and adversely affect the Company's operations or financial condition.

Technological Innovation and Protection of Intellectual Property and Proprietary Rights

Competitors include major chemical companies, other food ingredient companies and consumer food companies that also engage in the development and sale of food ingredients. Many of these companies are engaged in the development of texturizers and other food ingredients and have introduced a number of texturizers into the market. There can be no assurance that existing products or products under development by our competitors will not prove to be more effective or less costly than any products which have been or are being developed by us.

The Company and particularly the Food Group and Steam Technology Group depend in part, on their ability to protect intellectual property rights. We rely primarily on patent, copyright, trademark and trade secret laws to protect our proprietary technologies. We cannot be sure that such measures will provide meaningful protection for our proprietary technologies and processes. The failure of any patents to provide protection to our technology would make it easier for our competitors to offer similar products.

Governmental Regulation and Policies

The Company and its subsidiaries are, and are expected to continue to be, subject to substantial federal, state, provincial and local environmental regulation. These regulations exist in virtually all the Company's operational business locations throughout North America and can present delays and costs that can adversely affect business development. Any changes to current regulations may impact the development, manufacturing and marketing of the Company's products, and may have a negative impact on future results.

Stake's Steam Explosion Technology Group

The Steam Explosion Technology Group has yet to gain wide acceptance within the industry and consequently earnings can fluctuate from quarter to quarter. Its patented steam technology, while proven, has yet to develop a firm customer base. The success of this division will depend upon its ability to promote commercial acceptance of the StakeTech System.

Lack of Dividends; Dividend Restrictions

Stake has never paid dividends on its common shares and does not contemplate paying cash dividends in the foreseeable future. Moreover, Stake is precluded under the terms of various agreements with its creditors from paying dividends until the related indebtedness has been satisfied. It is the Company's intention to retain future earnings to fund growth. Accordingly, investors will not receive a

return on investment in Stake common shares through the payment of dividends in the foreseeable future and may not realize a return on investment even if they sell their shares. Any future payment of dividends to Stake security holders will depend on decisions that will be made by the Board of Directors and will depend on then existing conditions, including the Company's financial condition, contractual restrictions, capital requirements and business prospects. The receipt of cash dividends by United States shareholders from a Canadian corporation, such as Stake, is subject to a 15% Canadian withholding tax.

Customer Concentration

A portion of the Company's revenues in the Food Group are derived from a relatively low number of customers. Although the Company has a good working relationship with these customers, the loss of one of these customers would have a negative impact on the results of the Company. The Company plans to continue to mitigate this risk going forward by broadening its customer base and product offering.

Integration of Acquired Companies

The Company's growth strategy inherently asserts that acquisitions will be integrated successfully. However, the Company's ability to integrate current and future acquisitions will have a direct impact on the Company's future results. Failure to integrate acquisitions in a timely and efficient manner may have a negative impact on the future results of the Company.

OFFICES

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SHAREHOLDER COMMUNICATIONS

Copies of Stake's Annual Report, Form 10-K (Annual Information Form) and other Regulatory filings are available on the Company website www.staketechnology.com. Additional financial information has been filed electronically with various securities commissions in Canada through SEDAR (www.sedar.com) and in the USA through EDGAR (www.edgar.com). Paper copies are available without charge.

Please contact:

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ANNUAL AND SPECIAL MEETING

Wednesday, June 18, 2003 at 4:00 pm
Le Royal Meridien King Edward Hotel
Windsor Ballroom
Toronto, Ontario, Canada

Listed on Nasdaq as STKL and TSX as SOY

Except for the historical information herein, the matters discussed in this Annual Report include forward looking statements that may involve a number of risks and uncertainties. Future results may vary significantly based on a number of factors, including, but not limited to, risks in market acceptance of new products or technology, continuing product demand, the impact of competitive products and pricing, changing economic condition, and other risk factors detailed in the Company's December 31, 2003 10-K and other filings with the Securities and Exchange Commission.

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